
IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT

MONOLITH PORTLAND MIDWEST
COMPANY, a Nevada Corporation

Appellant,

v.

KAISER ALUMINUM & CHEMICAL
CORPORATION, KAISER ALUMINUM
& CHEMICAL SALES, INC., GEORGE
C. DAVIS AND PALMER FORD,

Appellees.

VOLUME I
APPELLANT'S BRIEF

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No. 21,775

IN THE

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MONOLITH PORTLAND MIDWEST
COMPANY, a Nevada Corporation

Appellant,

v.

KAISER ALUMINUM & CHEMICAL
CORPORATION, KAISER ALUMINUM
& CHEMICAL SALES, INC., GEORGE
C. DAVIS AND PALMER FORD,

Appellees.

APPELLANT'S BRIEF

This appeal is from the Final Judgment (R.* 4672-73) entered on January 6, 1967 by the District Court, District Judge Albert Lee Stephens, Jr., presiding, holding that plaintiff/appellant take nothing and that each and every claim for relief in its complaint be dismissed with prejudice; and that defendants/appellees shall have and recover from plaintiff/appellant reasonable attorneys' fees in the sum of \$280,000.00.

* The letter "R" refers to the Record on Appeal, "S.R." to the Supplement to the Record on Appeal dated August 11, 1967, "Tr." to the Reporter's Transcript of Proceedings, and "Ex." to exhibit.

JURISDICTIONAL STATEMENT

This action was tried without a jury upon the issues framed by the First Amended Complaint, etc. (R. 27-40) and Answer (R. 74-88) as amended in the Pretrial Conference Order (pp. 12-27, S.R. 45-60). Jurisdiction of the District Court was based upon diversity of citizenship, the amount in controversy, exclusive of interest and costs, being more than \$3,000.00 [the action was filed below prior to the effective date of Section 1332, Title 28 United States Code, as amended July 25, 1958; there appears no doubt that the amount in controversy was and has been in excess of \$10,000.00]; and upon the patent laws of the United States, Section 1338, Title 28, United States Code.

Jurisdiction of this Court is based upon Section 1291, Title 28, United States Code.

Appellant, who was plaintiff below, is Monolith Portland Midwest Company (hereinafter referred to as "appellant" or "Monolith"), a Nevada Corporation. Appellant is a cement company, and owns and operates a cement plant at Laramie, Wyoming. Monolith Portland Cement Company which owns all of appellant's common stock also owns and operates a cement plant in the Tehachapi Valley at Monolith, California. Both companies are joint venturers with respect to exploitation of the valuable information and patent involved in this action.

Appellees, who were defendants below, are Kaiser Aluminum & Chemical Corporation, a Delaware Corporation, Kaiser Aluminum & Chemical Sales, Inc., a California Corporation (hereinafter collectively referred to as "Kaiser"), and two Kaiser employees, George C. Davis and Palmer Ford (Ford is no longer employed by either of the appellee Kaiser Companies). On June 6,

1958, when the original complaint (R. 2-10) was filed, Davis and Ford were residents of California. The entire group of appellees are herein referred to as "appellees" or "defendants".

STATEMENT OF THE CASE

Appellant brought action against appellees for wrongful appropriation of appellant's valuable information, and, by amended complaint, for patent infringement. The subject matter of both related to rotary kilns having refractory linings which kilns are used in the manufacture of cement.

On June 7, 1966, the District Court filed its written Memorandum of Decision* (R. 3560) holding, (1) against appellant on all five counts of its misappropriation of valuable information claim (2) holding appellant's Anderson patent invalid, but if valid, contributorily infringed, and (3) holding that the case was exceptional within the meaning of Section 285, 35 United States Code, and that reasonable attorneys' fees should be awarded to appellees. On January 6, 1967, the District Court entered a Supplemental Memorandum of Decision on Attorneys' Fees (R. 4665-4670), Findings of Fact (R. 3709-3757) and Conclusions of Law (R. 3758-3762), and the aforementioned Judgment (R. 4672-4673). A Notice of Appeal (R. 4704-4705) was filed on January 19, 1967.

QUESTIONS PRESENTED

1. Must a District Court in a case involving a claim of unfair competition and misappropriation of confidential information, coupled with a claim for patent infringement, apportion between services for unfair

*Hereinafter sometimes abbreviated Memo. of Dec.

competition and misappropriation of confidential information on the one hand and services for patent infringement on the other in making an award of attorneys' fees?

2. Absent apportionment in such a case, can a District Court base such an award not only upon the patent statute, 35 USC 285, but upon a purported exercise of a general equity power?

3. In such a case, would not applicable state law prohibiting an award of attorneys' fees for services in cases for unfair competition and misappropriation of confidential information exclude such services as a basis upon which such an award can be supported?

4. If the award of attorneys' fees in this case must be based solely upon 35 USC 285, does the record support a finding that appellant has engaged in conduct which would render the case exceptional under such statute?

5. If this case be deemed exceptional within the meaning of 35 USC 285 and if rational basis can be found in the opinions and findings of the District Court for the ascertainment of any definite amount of attorneys' fees whatsoever, would not \$37,000 rather than \$280,000 be reasonable under the statute as construed by this Court in *Dubil v. Rayford Camp & Co.*, (9 Cir. 1950) 184 F.2d 899?

6. Did appellant make a disclosure to Kaiser in sufficiently concrete terms for it to be protectable?

7. Was the disclosure made by appellant to Kaiser in confidence?

8. Did Kaiser appropriate to its own use the disclosure made to it by appellant?

9. Is appellant's action for misappropriation of confidential information barred by the statute of limitations?

This Court will note the absence of questions directed to the holding of patent invalidity. Such absence derives from the fact that appellant is not appealing such holding for reasons which will be explained subsequently.

SPECIFICATION OF ERRORS

Before setting forth our Specification of Errors, we believe it will be helpful to briefly describe the background of the subject matter of the present controversy.

Kaiser Aluminum & Chemical Corporation manufactures refractories (i.e., bricks) which its affiliate, Kaiser Aluminum & Chemical Sales, Inc., sells to industrial refractory users. Commencing sometime prior to the facts in controversy below, appellant and Monolith Portland Cement Company purchased and used Kaiser basic refractory bricks in the burning zone linings of their rotary cement kilns. (Pretrial Conference Order, p. 4, S.R. 37).

Most modern cement plants use rotary kilns wherein the raw materials are burned or sintered into clinkers, which when finally ground with a small amount of gypsum, become finished Portland Cement (e.g., the familiar sack of Portland Cement). The raw materials are crushed or ground to predetermined fineness and uniformity, and water is added until the mixture is of the desired consistency. This mixture, then referred to as slurry or feed, is introduced into the upper end of an inclined, rotating tube, called a kiln (See Illustration A in Part 2 of the Appendix [a diagram from Ex. 71]). As the tube is rotated, the slurry passes down through the

kiln and is heated by hot gasses passing from the lower end toward the upper end of the kiln. The hot gases drive off the water in the slurry, and eventually sintered clinkers pass from the lower end of the kiln. Such kilns are, as might be expected, mammoth steel cylinders typically eight to fifteen feet in diameter and several hundred feet long.

The kiln has several "zones", which may be referred to as the drying zone, the intermediate zone, the burning zone, and the cooling zone. The slurry is heated and dried in the first two zones. The slurry is sintered in the burning zone, where the temperature is approximately 2600 to 2900° F. This zone in a twelve foot diameter kiln may be approximately 60 feet long. As explained by the District Court (Memorandum of Decision, p. 17, R. 3576), this action is chiefly concerned with the refractory lining of the burning zone where the greatest heat is applied. Therefore, we will turn to a brief discussion of lining practices in the burning zones of rotary cement kilns. These refractory linings include bricks.

Both acid (commonly referred to as alumina) and basic bricks have been used to line the interior of the metal kiln shell to protect the same from the high temperatures within the kiln. Whether acid or basic bricks are used depends upon the conditions which exist in any particular kiln. Alumina bricks have been preferred by cement manufacturers in certain applications, but the use of basic brick in the burning zone has grown until the use of this form of refractory predominates in the cement industry (Memorandum of Decision, p. 24, R. 3583). However, basic bricks are more conductive of heat and have greater expansion and contraction characteristics which have presented a special problem. Because of this, provision must be made to accommodate the expansion.

A typical lining employs bricks placed in circumferential rings within the kiln, one ring following another until the entire inner face of the kiln shell of the burning zone is covered by bricks. (See Illustration B and C in Part 2 of the Appendix [photographs from Exhibit 585]). The portion of the brick resting on the shell is wider than the portion facing the interior of the kiln, and this part of the brick against the shell is called the "cold face", and the portion facing the interior is called the "hot face". Each brick is thus slightly pie- or wedge-shaped. The expansion is compensated for by placing a metal plate, called a shim, between each brick in the ring. Longitudinal expansion of the series of rings is provided for by placing combustible material, such as a piece of cardboard, between the rings. As the kiln is heated, the combustible material burns out, the bricks expand, and the shims fill the space between the brick. The shims oxidize a certain distance from the hot face, and the resulting oxide combines with a portion of the adjacent brick in such a way as to weld or knit the wall into a unitary structure. We should note that a coating (as a result of the slurry) builds up on the hot face of the brick which provides further insulation, and it was clear that having the shims bear against the shell served to drain heat from the hot face of the brick. The District Court in its Memorandum of Decision included an extensive discussion of the history of kiln lining practices and this coating, as well as the characteristics and operation of cement kilns (pp. 14-44, R. 3573-3603).

Kaiser has supplied basic bricks and shims to Monolith for use in lining its cement kilns. As of 1953, Kaiser had never tried to install a lining for anyone with shims which did not contact the kiln shell (Memorandum of Decision, p. 36, R. 3595). Its practice at that time was to offer written kiln construction advice to its customers

wherein "full" shims were placed between each brick in the ring and the shims rested against the kiln shell. (See, for example, Exhibit 68). As the District Court commented (p. 36, R. 3595), "There is no doubt but that a lining constructed as suggested would result in full shims with their cold edges in metal to metal contact with the shell."

Prior to the controversy, general industry practice was, where basic bricks were used, to use a "full" metal shim between the bricks in the ring, with the shim in contact, or essentially so, with the interior of the shell. Such shims are generally referred to as "longitudinal" shims inasmuch as they are placed adjacent the long side of the brick and extend in the longitudinal direction of the kiln, it being understood that they were to be installed generally in contact with the kiln shell. In particular, and stated briefly, the present controversy relates to cement kiln hot zone linings wherein the shims are *deliberately maintained out of contact* with the kiln shell. Included also are short shims disposed transverse to the longitudinal direction of the kiln, and these shims have been referred to as "arcuate", "segmental", or "circular" shims.

Briefly, Frank Anderson of Monolith became concerned with the amount of heat transmitted to the kiln shell through the shims in the basic brick lined burning zone. This heat was lost thereby necessitating higher operating temperatures. He was first to equate this loss of heat to loss in cement production, and he followed this concept by proposing that the lining should be constructed with the shims positioned out of contact with the shell to thereby improve kiln efficiency. An embodiment of this concept was used in a kiln lining in the burning zone of Monolith's Laramie, Wyoming plant in early 1954. The kiln lining included conventional Kaiser

basic bricks which previously had been used, but “arcuate” shims were supported by the hot face of the brick to maintain them approximately one and one-half inches from the kiln shell. (See illustrations D and E in Part 2 of the Appendix which were the Pretrial versions respectively drawn by plaintiff and defendants, Pretrial Conference Order, pp. 66-67, S.R. 99-100).

The Controversy

Monolith contended that in 1953 it disclosed to Kaiser the concept of lining rotary cement kilns with conventional basic brick having short shims in order to increase cement production. A flow of information to Kaiser continued thereafter, including information pertaining to the Laramie lining, noted above, and the production increase which had been observed. Subsequently, Mr. Anderson filed a patent application directed to a kiln lining construction employing metal shims maintained out of contact with the kiln shell, and described therein such constructions including both longitudinal and arcuate short shims. Prior to the initial disclosures to Kaiser, Kaiser invariably recommended the conventional practices described above wherein full shims in contact with the kiln shell were used, but after such disclosures, Kaiser placed on the market under the name “UNITAB” a unitary article including a basic brick having adhesively secured thereto a cardboard spacer and a short longitudinal shim out of contact with the kiln shell. (See Illustration F in Part 2 of the Appendix [From Exhibit 2/V, p. 247]).

The original complaint was filed herein on June 6, 1958, essentially alleging misappropriation of Monolith's confidential information relating to short-shimmed kiln lining practices in cement kilns. After Mr. Anderson's patent issued, an amended complaint (R. 27-40) was filed

on September 8, 1959 alleging patent infringement by Kaiser. After extensive discovery, a Motion for Summary Judgment was filed by defendants/appellees with respect to patent validity, but this motion was denied in September, 1962 (R. 1103-04). Pretrial commenced on September 17, 1963, taking 11 days in court and 2 days in chambers. After appellant presented its case, the appellees moved to dismiss the confidential information claims, but the same was denied. The appellees put on their case, following which the District Court issued its Memorandum of Decision, defendants submitted proposed Findings of Fact, which were then adopted and Judgment entered as noted previously. Pretrial and Trial consumed approximately 100 days.

The Errors

1. The court erred by not clearly stating the basis for its award of attorney fees by reason of its failure to make an apportionment of fees as between the patent and non-patent sides of the case (Supplemental Memorandum of Decision Re Attorney Fees R. 4665-70).

2. The court erred by fixing responsibility on appellant for the difficulty for making such apportionment which resulted from withholding of information by appellees (R. 4665-70, 4668).

3. The court erred in awarding attorneys fees to appellees for the non-patent side of the case on the basis of the court's general equity power (R. 4670).

4. The court erred in not following, in a diversity case, the state law prohibiting an award of attorney fees in the absence of statute or contract, there being no statute or contract authorizing such award for the non-patent side of the present case (R. 4665-70).

5. The court erred in holding this case exceptional within the meaning of 35 USC 285 (Finding of Fact No. 132, R. 3753-54).

6. The court erred in holding that appellant obtained its patent claims in suit through fraudulent representations to the Patent Office (Memo of Dec., p. 148, R. 3707).

7. The court erred in holding that appellant unduly prolonged or prosecuted in bad faith any part of this litigation (Findings of Fact Nos. 133-136, R. 3754-57).

8. The court erred in holding certain uses in 1955 by Riverside Cement Company and Southwest Portland Cement Company to be public uses (Finding of Fact No. 99, R. 3736).

9. The court erred in not allowing appellant to interrogate a Southwestern employee as to whether the 1955 use by his company was experimental (trial transcript pp. 5040-5069, Part 3 of the Appendix hereto).

10. The court erred in holding the effective filing date of the patent claims in suit to be more than one year after the 1955 uses by Riverside and Southwestern. (Findings of Fact Nos. 99 and 102, R. 3736, 3737).

11. The court erred in holding the Riverside and Southwestern uses to be statutory bars (Finding of Fact No. 99, R. 3736).

12. The court erred in holding that appellant did not disclose the 1955 use by Southwestern to the Patent Office (Finding of Fact No. 102, R. 3737-3740).

13. The court erred in holding that appellant fraudulently concealed the 1955 uses by Southwestern and Riverside from the Patent Office (Finding No. 102, R. 3737-3740).

14. The court erred in holding sales of a component, i.e., bricks, of the patented invention, i.e., a lined kiln, to be statutory bars as to the invention (Findings of Fact Nos. 97 and 98, R. 3736).

15. The court erred in not requiring appellees to meet the burden of proof required by law for establishment of a charge of fraud (Findings of Fact Nos. 129 and 130, R. 3753).

16. The court erred in holding that the Petition To Make Special filed during Patent Office prosecution of the patent in suit involved fraud (Findings of Fact Nos. 106-110, R. 3742-43).

17. The court erred in holding that the Petition To Make Special filed in the patent in suit was material to the issuance of the patent (Finding of Fact No. 125, R. 3752).

18. The court erred in finding that “unexpected results” affidavits filed by appellant in the Patent Office were consciously false and misleading (Findings of Fact Nos. 111-113, R. 3743-45; 126 & 128, R. 3752) in that there is not at least clear and convincing evidence:

(a) establishing that Rentsch believed the unexpected results to be untrue, or

(b) establishing that there were no unexpected results.

19. The court erred in finding that the Wicken affidavit filed in the United States Patent Office was grossly false and misleading in many respects (Findings of Fact Nos. 114-120, R. 3745-50; 127 and 128, R. 3752) in that there is not at least clear and convincing evidence:

(a) establishing that Rentsch believed the Wicken affidavit to be false, and

(b) establishing that the Wicken affidavit was material to the issuance of the Anderson patent.

20. The court erred in holding an attorney fee award of \$280,000.00 to be reasonable within the meaning of 35 USC 285 and in granting costs (Finding of Fact No. 138, R. 3757, Final Judgment, p. 2, R. 4673).

21. The court erred in not permitting appellant to pursue discovery aimed at developing more information than appellees were willing to disclose voluntarily as to the nature of the services performed by their counsel (Order, R. 4510-14, 4662, Post Trial Tr. 95).

22. The court erred in making the attorney fee award of \$280,000.00 by not making exclusions required by law and by not recognizing countervailing equities in favor of appellant (Finding of Fact No. 138, R. 3757).

23. Throughout the findings of fact, the court erred in holding that only cement kiln linings employing radial arcuate short shims and not longitudinal short shims were disclosed by Monolith to Kaiser (Findings of Fact Nos. 24, R. 3713-14; 29, R. 3715; 32, R. 3716; 37, R. 3717; 41-43, R. 3718-19; 48-49, R. 3720-21; 64-65, R. 3724-25; 68, R. 3726).

24. The court erred in holding that Kaiser was not aware of the short shim lining installed at the Monolith, Laramie kiln in 1954 or improvements in production and lining life which resulted therefrom. The court further erred in holding that there was no knowledge by Kaiser of the arcuate and longitudinal species of short shims before June of 1954 (Findings of Fact Nos. 27-29, R. 3714-15; 53-54, R. 3722; 75, R. 3727).

25. The court erred in holding that the Johnson-Putnam telephone call in 1953 did not convey to Kaiser the generic concept of using a kiln lined with short-shimmed

brick to increase kiln production and at least one specific embodiment, longitudinal short shims (Findings of Fact Nos. 32-33, R. 3716).

26. The court erred in rejecting the value of short-shimmed kiln linings when Kaiser's commercially successful kiln lining bricks employed short shims (Finding of Fact No. 52, R. 3721).

27. The court erred in holding that the disclosure of kiln linings using short shims by Monolith had no value and in holding that value was established neither by the 1954 lining in Monolith's Laramie Kiln nor by the commercial success of the Kaiser UNITAB brick (Findings of Fact Nos. 44-46, R. 3719-20).

28. The court erred in holding that the entire disclosure by Monolith of the concept of cement kiln linings employing shims short of the shell in either the longitudinal or arcuate form was not in confidence (Findings of Fact Nos. 34-36, R. 3716-17; 64-65, R. 3724-25; 68, R. 3726).

29. The court erred in holding that only rotary cement kiln linings employing arcuate short shims were disclosed in confidence (Findings of Fact Nos. 65, R. 3725; 68, R. 3726).

30. The court erred in finding that the disclosure by Johnson of a short shim kiln lining to Putnam in the 1953 phone call was not in confidence (Findings of Fact Nos. 34-36, R. 3716-17).

31. The license negotiation meetings between Monolith and Kaiser in June and July of 1955 are evidence of a prior confidential relationship which existed between the parties and the court erred in holding that such license negotiation meetings were not in confidence when, by

their very nature, the meetings must have been in confidence (Finding of Fact No. 47, R. 3720).

32. The court erred in holding that the Monolith disclosure of short shimming kiln linings to increase production was not protectible because of prior art and information which was generally available but which had not been used by Kaiser and which had not been previously used by anyone to develop short shimming in cement kilns (Findings of Fact Nos. 31, R. 3715; 51 R. 3721).

33. The court erred in holding that Kaiser's UNITAB brick was not based upon Monolith's confidential disclosure but was rather developed solely upon the basis of other Kaiser knowledge (Findings of Fact Nos. 51, R. 3721; 75, R. 3727; 77, R. 3729).

34. The court erred in holding that no confidential information of Monolith's was appropriated by Kaiser (Findings of Fact Nos. 69-72, R. 3726-27; 76 & 78, R. 3729).

35. The court erred in holding that appellant's action for misappropriation of confidential information was barred by the statute of limitations (Findings of Fact No. 73, R. 3728).

ARGUMENT

The Award of Attorneys' Fees

We recognize that it is unconventional to open this brief with a discussion of the attorney fee issue rather than going directly to the merits of appellant's causes based on unfair competition and appropriation of confidential information, but we do this for two very compelling reasons. First, the extraordinary magnitude of

the amount of attorneys fees awarded by the court below (seven times as much as has ever been reported awarded in a comparable case), is such that it seriously rivals the merits of the case in monetary importance to appellant. Second, keeping in mind the magnitude of the award, we address ourselves first to the attorney fee issue to avoid any possibility of the danger so aptly pointed out by this Court in *Maier Brewing Co. v. Fleischmann Distilling Corp.*, (9 Cir. 1966) 359 F.2d 156, 163 (footnote 11), viz., the treatment of the attorney fee question as a mere incident because of primary attention being devoted to the merits. Affirmed at 386 US 714, 18 L.ed.2d 475 (1967).

The Proceedings Below Re Attorney Fees

Defendants' demand for attorney fees under 35 USC 285 was asserted immediately after completion of trial (opening brief for defendants, R. 3119, pp. 145-146) and the court below then ruled in favor of defendants on all issues other than infringement of the patent in suit and held that, as prevailing parties, defendants were entitled to an award of reasonable attorneys fees since the court considered the case to be "exceptional" within the meaning of 35 USC 285. The court further ruled (R. 3708) that a separate hearing would be held on the amount of reasonable attorney fees to be awarded and that evidence would be admitted on this issue. Subsequent to the completion of trial and prior to any proceedings on the amount of attorneys fees to be awarded, plaintiff retained new counsel (R. 3791) and new counsel were given primary responsibility for all further proceedings including the matter of attorney fees and the present appeal. New counsel immediately studied defendants' application for order fixing amount of attorneys

fees to be awarded defendants (R. 3763-82) which demanded substantial reimbursement for such fees assertedly actually expended by defendants in the amount of \$450,000 (R. 3765). It was clear to counsel for plaintiff-appellant that, for reasons which will be discussed in substantial detail in this brief, since the present case involved divers non-patent claims for relief sounding in unfair competition and breach of contract, together with the patent claim, apportionment between work done relating to the patent and non-patent sides of the case would be necessary in order for the award to meet the requirement of 35 USC 285 that it be restricted to work done only for the purposes of the patent side of the case. Additionally, it was clear to appellant that the assessment of any such award would have to make appropriate exclusions and give adequate recognition to countervailing equities in favor of plaintiff in order for the award to be "reasonable" within the meaning of the statute. Accordingly, appellant then filed 108 comprehensive interrogatories (R. 3800-16) designed to facilitate the necessary apportionment and to provide information relating to the appropriate exclusions and countervailing equities. Defendants objected to all of these interrogatories (R. 3899-3907) and the court sustained these objections as to all but 12 of them (R. 4510-14). Appellant also moved for production of the documentary material supporting the attorney fees which defendants asserted they incurred (R. 3826-29) and while the court below required production of some such materials, it denied access to the individual or group day-books kept by defendants' attorneys. Thus, the billing materials attached to the affidavit of James W. Geriak (R. 3944-45) which are uninformative in the extreme with regard to the specific nature of the services actually

performed by counsel for defendants, even though quite voluminous, are all that we had to work with in attempting to present to the district court a rational approach to apportionment. Finally, a one-day hearing was held on the matter of attorney fees (R. 4662; Post Trial Tr. 102-217) during which appellant requested in open court that it be allowed to take appropriate depositions with a view toward clarifying the apportionment situation, but this too was denied (Post Trial Tr. 95).

This brief proceeding was concluded by the setting of the amount of the award of attorney fees at \$280,000 together with the court's filing of a supplemental memo of decision re attorneys fees (R. 4665-70). No findings of fact were entered that could be considered in any way to support or even provide a basis for conjecture as to how this particular sum was arrived at. There are thus no findings before this Court which could advise this Court as to the basis of the district court's award of \$280,000 as a reasonable award of attorneys fees.

The Errors Made By The Court Below In Making The Award Of Attorney Fees And In Assessing The Amount Thereof.

Even had the award of attorneys fees herein been restricted to the patent side of the case, such award would have been error since the case was not "exceptional" within the meaning of 35 USC 285, but the misconstruction and misapplication of the law by the court below in making its award went far beyond the confines of an award in a patent case since the court made no effort to exclude work done relating to the non-patent side of the case from the basis for the award. Failure to make such apportionment prevented the court from stating the basis for the award with the clarity required by law and we believe that the award should be set aside for

this reason alone. Furthermore, the court's attempt to invoke its "general equity power" (R. 4670) to bolster its award with regard to non-patent services was unprecedented and contrary to law.

Still further, since the present case was commenced as an action for unfair competition based on diversity of citizenship under 28 USC 1332 (R. 2-9) (the claim for patent infringement was added by amendment more than a year after filing of the original complaint), the familiar diversity rule requiring application of state law must be given effect and the applicable California law prohibits an award of attorney fees other than pursuant to statute or contract, neither of which are available with regard to the non-patent side of this case.

We expect that it will not surprise this Court that the authorities relied upon by the court below in attempting to exercise its non-existent "general equity power" are precisely those rejected as unsound or distinguished as inapplicable to such a case as we have here in *Maier Brewing Co. v. Fleischmann Distilling Corp.*, (9 Cir. 1966) 359 F.2d 156.

In brief, we urge that the award of attorneys fees by the court below involves an exercise of power far beyond that possessed by district court judges and is reversible error because:

1. An award of attorneys fees under the patent statute, 35 USC 285, such as the present award purports to be, must be predicated upon a clearly stated basis and must be confined to work relating *only* to the patent side of the case and work done relating to non-patent claims for relief must be excluded by apportionment. Indeed, fees cannot be awarded under the patent statute for work which would have necessarily been performed with regard to the non-patent

side of the case even if such work is equally useful for the patent side of the case.

2. After apportionment, there can be no award of attorneys fees for the unfair competition side of the case because (a) any attempt to do this by exercise of a general equity power would be in direct conflict with firmly settled policy repeatedly announced by the Supreme Court of the United States and recently confirmed by that tribunal and (b) since jurisdiction regarding the unfair competition side of the case was based on diversity of citizenship, state law must be followed in determining whether the court has power to award attorneys fees under *Erie Railroad Company v. Tompkins*, 304 U.S. 64, 82 L.ed. 1188 (1938) and the applicable California law, Section 1021 of the Code of Civil Procedure, prohibits such an award.

3. There was nothing exceptional about the patent side of this case. Appellant neither unduly prolonged it, prosecuted it in bad faith nor committed fraud on the Patent Office in obtaining its patent.

4. Were the patent side of the case to be deemed exceptional, applications of the rule of *Dubil v. Rayford Camp & Co.* (9 Cir. 1950) 184 F.2d 899, would reduce the award from \$280,000 to not more than \$37,000.

The Failure to Apportion

A Clear Statement Of The Basis For The Award Must Be Made And This Requires Apportionment.

This Court left no doubt with regard to the necessity for a clear statement of the basis of any awards that might be made under 35 USC 285 when, in *Dubil* at 184 F.2d 903 it said;

“As we have just said, the basis on which attorney fees are to be awarded must be stated clearly. Otherwise it becomes the duty of the reviewing court to set the award aside.”

In the present case, the basis upon which the award of attorneys fees was made is anything but clearly stated. Notwithstanding the fact that it recognized (R. 3570), that:

“The case, therefore, divides itself into two parts, the non-patent counts and the patent count.”

The lower court refused to give effect to this division when making the attorney fee award. Rather, the court below found (R. 4665) it “impossible to separately treat the evidence which was relevant and material to the patent count (Count Six) and its defenses from the evidence relevant and material to the other counts”.* Lack of clarity is also manifest from the statements (R. 4670) that the award is supported by the “general equity power” of the court and that Rule 37(c) provides basis for awarding attorneys fees and would be applicable in “certain instances” (unspecified) in this case which are hardly consistent with the following statement that the “award made in this case is within the authority of the statute” (35 USC 285). Thus, not only did the failure of the court below to make the apportionment required by law necessarily prevent that court from making a clear statement of the factual basis for the attorneys fees award, so also would it appear to have compelled the court to reveal great uncertainty with regard to the

* This is also inconsistent with paragraph 4 of the court’s order denying defendants’ motion for summary judgment on the patent count wherein the court stated that the issues posed by this count “appear to be severable from the remainder of the case for separate and early trial” and invited a motion for such a separate trial (R. 1103). No such motion was made.

legal basis for the award, all in violation of the rule of *Dubil*.

Furthermore, the federal appellate tribunals which have considered the question of apportionment have required that it be made. In *Aeration Processes, Inc. v. Kidde & Co., Inc.*, (2 Cir. 1949) 177 F.2d 772, two patents were involved, one held to have involved an exceptional case under the statute and one otherwise. Pursuant to original remand by the Court of Appeals for the 2nd Circuit to the District Court with instructions to determine whether attorney fees should be awarded, the prevailing parties submitted proof of their overall expenses and made no attempt to apportion as between the two patent claims. Attorneys fees were thereupon *denied* by the District Court, but the Court of Appeals reversed and returned the case to the District Court with leave to the prevailing parties to prove their reasonable expenses in preparing to defend *solely* against the patent claim found to be exceptional. In this, the court indicated that the failure to apportion below would have constituted ground for complete denial of any fees except for the fact that the prevailing parties might have been misled by the court's earlier opinion. In *Turchan v. Cincinnati Milling Machine Co.*, (6 Cir. 1953) 208 F.2d 228, while the opinion is somewhat cryptic, it would appear that certain patents had been originally sued upon. The defendant, ultimately the prevailing party, counterclaimed by way of declaratory judgment, asserting the invalidity of the patents. Thereafter, certain of the originally sued upon patents were dropped from the complaint but not from the counterclaim. After trial, it was urged that the original assertion of the dropped patents made the case an exceptional one. Attorneys fees were denied and, significantly, in affirming, the court gave as one basis for decision that:

“ . . . much of the work claimed to have been done by the defendant was necessary in support of its counterclaim. . . . ”

In *Sanford Research Co. v. Eberhard Faber Pen & Pencil Co.*, (7 Cir. 1967) 379 F.2d 512, 516 the court demonstrated clear recognition that the patent statute cannot be relied upon as a basis for awarding attorneys fees relating to the unfair competition side of a combined patent-unfair competition case.

Indeed, the oft-cited decision in *Carter Products, Inc. v. Colgate-Palmolive Co.*, (D. Md. 1963) 214 F.Supp. 383, which was relied upon by the court below in the present case, is to the same effect as *Sanford, supra*, and makes it clear that the patent statute will not support an award of attorneys fees for the non-patent side of the combined patent-trade secret case at 214 F.Supp. 414 as follows :

“There is no similar statute with respect to the trade secret issues. Any such award must be based upon the inherent power of a federal court to award attorneys’ fees as costs in certain types of cases.”

The foregoing, we submit, renders inescapable the conclusion that an assessment of attorneys fees under the patent statute, 35 USC 285, must be limited to an exceptional *patent* case and cannot include a trade secret or unfair competition case, exceptional or otherwise, just because the trade secret case happens to be related to the patent case and may procedurally be tried at the same time. As stated by this Court in *Maier* at 359 F.2d 158:

“We start with the long established principle that a successful party cannot, in an ordinary action at law or in equity, recover his attorney’s fees incurred

in the action, unless such recovery is provided for by statute or contract. It makes no difference whether such a recovery by denominated costs or damages or something else. This has long been the rule in the federal courts, and in the courts of California.”

The Inclusion of Non-Patent Services in the Award

General Equity Power Cannot Support An Award Of Attorney Fees For The Non-Patent Side Of The Case.

The same policy considerations as those requiring apportionment preclude reliance upon the general equity power of the court as support for an award of attorney fees herein for any work done relating to the non-patent side of the case, *viz.*, since there is no statute or contract authorizing such award, only the most extraordinary circumstances would warrant exercise of equity power in this regard, prevention of inhibition of use of the judicial process being considered enormously more important than compensation of the prevailing party.

This policy has long prevailed in this country. As early as 1796, the Supreme Court recognized the American rule denying the recovery of attorneys fees in the federal equity courts even though those courts had the power to award such fees, *Arcambel v. Wiseman*, (1796) 3 Dall. 306, 1 L.ed. 613. This rule constituted a deliberate departure from the English practice, stemming initially from the colonies' distrust of lawyers and continuing because of the belief that the English system favored the wealthy and unduly penalized the losing party, 38 Yale L.J. 849. This policy has remained unchanged since the early days and was followed in no uncertain terms in *Oelrichs v. Spain*, (1872) 82 US 211, 230-231, 21 L.ed. 43, 45, where, after noting the dangers

which would be encountered in frequent fee-setting by the court and in inviting protracted litigation over the awards, the court said:

“We think the principle of disallowance rests upon a solid foundation, and that the opposite rule is forbidden by the analogies of the law and sound public policy.”

The current vitality of this policy and its general application are evidenced by the decision in *Farmer v. Arabian American Oil Co.*, (1964) 379 US 227, 13 L.ed.2d 248, where the Supreme Court reversed a decision involving taxing of costs and, in directing the lower court to give careful scrutiny to any items which prevailing litigants might request be awarded to them, observed at 379 US 235:

“Any other practice would be too great a movement in the direction of some systems of jurisprudence that are willing, if not indeed anxious, to allow litigation costs so high as to discourage litigants from bringing lawsuits, no matter how meritorious they might in good faith believe the claims to be.”

This was, of course, quickly followed by the affirmance of this court's decision by the Supreme Court in *Fleischmann Distilling Corp. v. Maier Brewing Co.*, (1967) 386 US 714, 18 L.ed.2d 475, wherein the court specifically reaffirmed the policy pronounced in *Arcambel*, *Oelrichs* and *Farmer* and said at page 478:

“Although some American commentators have urged adoption of the English practice in this country, our courts have generally resisted any movement in that direction. The rule here has long been that attorney's fees are not ordinarily recoverable

in the absence of a statute or enforceable contract providing therefor.”

Notwithstanding all of the foregoing, the court below in the present case has attempted to find support for its attorney fee award for the entire case in *Sprague v. Ticonic National Bank*, (1939) 307 US 161, 83 L.ed. 1184, *Local 149 International Union, etc. v. American Brake Shoe Co.*, (4 Cir. 1962) 298 F.2d 212 and *Rolax v. Atlantic Coast Line Railroad Co.*, (4 Cir. 1951) 186 F.2d 473. These cases are no more applicable here than they were in *Maier*, and it makes no difference that *Maier* was a case involving a statutory remedy which did not include attorney fee awards. Accordingly, we will point out in some detail why the aforementioned authorities relied upon by the lower court are inapplicable here.

Sprague v. Ticonic National Bank, (1939) 307 US 161, 83 L.ed. 1184 is a common fund case and was so designated by the Supreme Court in *Maier* at 18 L.ed.2d 479. Common fund cases are one of the limited exceptions to the American rule prohibiting awards of attorney fees in the absence of statute or contract and are, of course, based on the principle that it would be unjust and inequitable to allow others to obtain full benefit from a plaintiff's efforts in establishing or creating a common fund for the benefit of these others as well as himself without requiring contribution or charging the common fund for attorney fees. Patently, there is no common fund in the present case and, just as this court noted in its opinion in *Maier* at 359 F.2d 164, the present case:

“ . . . is in substance an action in tort, and we cannot see anything so peculiarly heinous about this tort as to justify the use of the ‘historic equity jurisdiction’ to award attorney's fees to the plaintiff.”

This reasoning applies with even more force where, as here, the award of attorneys fees is to prevailing defend-

ants since the defendants have suffered no property loss or appropriation and the matter reduces itself to the striking of a balance between discouraging free access to the courts of the land and providing rarely granted compensation to a party found to have been unfairly burdened by reason of having to pay his lawyer for services in defending litigation. We, of course, do not concede that defendants have been unfairly burdened in this regard in the present case, but will assume this for the purpose of the present discussion since fees could not be awarded in either event.

Indeed, Congress went so far as to codify the less favored standing of prevailing defendants to recover attorney fees in the anti-trust laws, 15 USC 15, wherein such awards are limited to prevailing plaintiffs in anti-trust cases, and then only when trebled damages are awarded, regardless of whether injunctive relief is granted. This was emphatically recognized in *Byram Concretanks, Inc. v. Warren Concrete Products Co.*, (3 Cir. 1967) 374 F.2d 649 wherein the court also rejected the suggestion that *Sprague, supra*, stands for the proposition that there is federal equity power to grant attorney fees in any type of litigation where bad faith is found. Rather, the court ruled that "free access to the courts must neither be denied nor penalized."

Thus, not only is it well-recognized that *Sprague* is not authority for granting attorney fees in an unfair competition case even if it is found that the losing party has litigated in bad faith, it is also firmly settled that a prevailing defendant will not be awarded attorney fees under even the most extraordinary circumstances unless there is specific statutory authorization for such award. In view of this, it is hardly surprising that neither defendants nor the court below have been able to cite a case in which attorney fees have been awarded to a prevailing

defendant in an unfair competition case or that our own research has revealed no such case.

Rather, both defendants and the court below cite *Local 149 International Union, etc. v. American Brake Shoe Co.*, (4 Cir. 1962) 298 F.2d 212; a case in which attorney fees were *denied*; a case not involving unfair competition but rather an action under Section 301 of the Labor Management Relations Act; and a case in which the *dicta* relating to attorney fee awards in unfair competition cases was based on the line of authority (*Aladdin Manufacturing Co. v. Mantle Lamp Co. of America*, (7 Cir. 1941) 116 F.2d 708 and the cases cited in footnote 8 of *Maier* at 359 F.2d 161) devastated by this Court in *Maier*. Thus, the actual holding in *Local 149* is no authority whatsoever for an award of attorney fees in an unfair competition case and the *dicta* therein relating to unfair competition cases has been categorically rejected by this Court as unsound in the extreme.

Rolax v. Atlantic Coast Line Railroad Co., (4 Cir. 1951) 186 F.2d 473 is likewise a case without any relevance to the present proceedings. In *Rolax* it was held that, under the Railway Labor Act, plaintiff Negro firemen were subjected to discriminatory and oppressive conduct by a labor union required to protect their interest. Thus, not only did *Rolax* involve prevailing plaintiffs recovering for breach of a duty which was fiduciary in nature, but their success also benefited other union members similarly situated thereby creating a common right, if not a common fund, for other members of the group who had not contributed to the expense of litigation. Defendants in the present case can avail themselves of neither factor which influenced the court in *Rolax*, i.e., defendants are not victims of breach of a fiduciary relationship (just the opposite, this is the nature of the offense with which defendants are here charged) and it

certainly cannot be said that defendants prevailed below on behalf of a group of non-litigants charged with misappropriating appellant's confidential information.

We submit that the reliance by the trial court on the foregoing cases is but a reflection of the validity of the insight demonstrated by the present Court in *Maier* when it observed in footnote 11 at 359 F.2d 163 that attorney fee questions are often disposed of as mere incidents and are relegated to a "clean-up" paragraph at the terminal portion of the opinion. The trial in the present case was extended and vigorously contested. The many issues on the merits requiring decision by the trial court are amply illustrated in the lengthy opinion of the court and the short shrift given to the attorney fee issue is by no means unconventional. Indeed, even after the decision of this Court in *Maier*, other courts continue to add to the progeny of *Aladdin*, *supra*, e.g., *Hulburt Oil and Grease Co. v. Hulburt Oil and Grease Co.*, (7 Cir. 1966) 371 F.2d 251, which, curiously, did not cite *Maier*. Thus, it is no disparagement of the court below to say that, trial-weary and concentrating primarily on the merits, it misconstrued the law relating to awards of attorney fees in unfair competition cases and made an award which cannot be sustained regardless of the outcome of this appeal on the merits.

Before leaving the subject of the exercise of equity power in awarding attorney fees, we must also consider the only decision containing any support whatsoever for invoking general equity power to award attorney fees in an unfair competition case, *Carter Products, Inc. v. Colgate-Palmolive Co.*, (D. Md. 1963) 214 F.Supp. 383 which, with all deference, we submit was incorrectly characterized as a patent case by this Court in *Maier* in footnote 13 at 359 F.2d 164. While *Carter* did involve an award of attorney fees under the patent statute, it recog-

nized, as we have pointed out above, that fees for the unfair competition side of the case could not be awarded under the patent statute. Thus, the court awarded the unfair competition attorney fees in *Carter* as “costs”, 214 F.Supp. 414, and relied upon the altogether irrelevant decisions in *Sprague*, *Local 149* and *Rolax*, which we have discussed in detail above, as authority for the award.

Furthermore, as pointed out in *Capitol Tie Rak, Inc. v. Tie Rack Stores of Illinois*, (N.D. Ill. 1966) 152 USPQ 7, the award of attorney fees in *Aladdin* and its progeny were made as *compensatory damages* to a prevailing plaintiff. For this additional reason the authorities cited by the trial court are not applicable to the present case since a prevailing defendant cannot claim the award of attorney fees to be compensatory damages. This, of course, is another inherent defect in the reasoning of *Carter* wherein the “damages” of *Aladdin* referred to in *Local 149* were transmuted to “costs”, but since it was the plaintiff who prevailed in *Carter*, the error there in designating the award as costs rather than damages would have been harmless had the court possessed the equity power to make the award, were it not for the danger so clearly apparent here that this error in language would be urged in later cases together with the fundamental legal error in making the non-patent award in *Carter* as support for the very argument which defendants made and the lower court accepted, i.e., that *Carter* is precedent for an award such as that now before this Court. Rather, *Carter*, insofar as it concerns non-patent attorney fee awards, is but one more paste-board in the house-of-card line of authority which this Court so convincingly swept aside in *Maier*.

Thus, the conclusion of the court below (R. 4669) that *Sprague*, *Local 149*, *Rolax* and *Carter* are:

“ . . . authority for the proposition that the Court may award attorneys’ fees as costs in non-patent claims when such claims are unconscionable, the equivalent of fraud, in bad faith or solely for the purposes of vexation and harassment.”

is quite clearly a misconstruction of the law. Furthermore, as we shall demonstrate in the following section of this brief, even if the general equity power of the court would countenance an award of attorney fees for the non-patent side of the case, such power could not be invoked in the present case because the state law which prohibits such an award must be applied.

**THE ERIE DOCTRINE REQUIRING APPLICATION
OF THE STATE LAW PROHIBITING AN AWARD
OF ATTORNEY FEES IN THE ABSENCE OF
STATUTE OR CONTRACT MUST BE OBSERVED
HERE WITH REGARD TO THE NON-PATENT
SIDE OF THE CASE.**

Finding of Fact No. 11 by the court below leaves no doubt that jurisdiction as to the non-patent side of the present case is based on diversity of citizenship under 28 USC 1332. Thus, as to the non-patent claims for relief, the familiar rule of *Erie Railroad Co. v. Tompkins*, 304 US 64, 82 L.ed. 1188 (1938) must be followed thereby requiring application of the law of the forum, i.e., California law. The applicability of the *Erie* rule and the California law cannot be doubted in view of this Court’s decisions in *Kemart Corp. v. Printing Arts Research Laboratories* (9 Cir. 1959) 269 F.2d 375, and *Bliss v. Gotham Industries, Inc.* (9 Cir. 1963) 316 F.2d 848, which make it clear that the possibility that pendent jurisdiction under 28 USC 1338(b) might have been available in the present case had the suit been commenced

after issuance of the patent which was added by amended complaint (R. 27-40) is of no moment.

The applicable California law is Section 1021 of the California Code of Civil Procedure which provides:

“Except as attorney fees are specifically provided for by statute, the measure and mode of compensation of attorneys and counselors at law is left to the agreement, express or implied, of the parties; but parties to actions or proceedings are entitled to costs and disbursements, as hereinafter provided.”

The California Supreme Court had occasion to pass upon this statute in *Freeman v. Goldberg* (1961) 55 Cal.2d 622, 12 Cal. Rptr. 668, 361 P.2d 244 where it ruled:

“Ordinarily, a successful litigant is not entitled to attorney’s fees as costs in the absence of special statutory authorization. Code Civ. Proc. Section 1201; . . .”

Our research has revealed no reported case in which attorneys fees have been awarded in an unfair competition case wherein jurisdiction was based on diversity in the face of state law proscribing such award. Rather, in *City Messenger of Hollywood v. City Bonded Messenger Service* (7 Cir. 1958) 254 F.2d 531, the court followed state law and refused to allow an award of attorney fees in an unfair competition case based on diversity of citizenship. Similarly, in *Stokes v. Reeves* (9 Cir. 1957) 245 F.2d 700, a diversity case which did not involve unfair competition, this Court ruled that application of the *Erie* doctrine was mandatory thereby requiring that state law be followed in determining whether an award of attorney fees should be made.

The foregoing analysis is in no way affected by the decision in *Hanna v. Plumer* (1965) 380 US 460, 14

L.ed.2d 8, even if it is interpreted as holding that, in a diversity case, when a state law is in direct conflict with a federal rule of civil procedure, the federal rule will control. In the present case there is no federal rule contrary to or in conflict with the state statute. We recognize that the court below made reference to Rule 37(c) (R. 4670), but this reference can hardly be considered as complying with the requirement of *Dubil v. Rayford Camp & Co.* (9 Cir. 1950) 184 F.2d 899 that the basis for attorney fee awards be clearly stated since the court below merely said:

“Rule 37(c) also provides a basis for awarding attorney fees and this rule would be applicable in certain instances in this case.”

No other federal rule of civil procedure has been relied upon or referred to by the court below with regard to the award of attorney fees nor does there appear to be any other federal rule which conflicts with the state statute. Furthermore, it is believed to be self-evident that the award of attorneys fees herein is most definitely bound up with the definition of the rights and obligations of the parties such that state law would have to be applied in any event in accordance with the interpretation of *Erie* in *Byrd v. Blue Ridge Rural Elec. Co-op.* (1958) 356 US 525, 2 L.ed.2d 953.

Before leaving the diversity point, we are obliged to mention the interpleader cases decided by this Court which have either expressly or impliedly refused to follow state law with regard to awards of attorneys fees and the Illinois federal authorities which are in direct conflict therewith. In all deference, it is submitted that the interpleader attorney fee cases decided by this Court have either overlooked the diversity rules and the state statute or have grown out of reliance upon authority

that did not stand for the proposition attributed to it. Briefly, the history of this line of authority apparently began with, curiously enough, a lower court decision in a libel case, *Kellems v. California CIO Council* (N.D. Calif. 1946), 6 F.R.D. 358, a diversity case in which the state statute *did* empower the court to award attorney fees and in which the court invoked its equity power to award a reasonable fee rather than that actually incurred by the prevailing party. *Kellems* was seized upon by the lower court in *Bank of China v. Wells Fargo Bank and Union Trust Co.* (N.D. Calif. 1952) 104 F.Supp. 59, 67, 68 as authority for finding that the federal courts have discretion not only with regard to the *amount* of attorneys fees to be awarded, but also with regard to the power of deciding *whether* such fees should be awarded. The invocation of Federal Rule of Civil Procedure 54(d) in *Kellems* as basis for using discretion in determining the amount of fees to be awarded was also appropriated by the lower court in *Bank of China* as the basis for the asserted power to make the award. This Court affirmed *Bank of China* at (9 Cir. 1953) 209 F.2d 469 and met the problem of the *Erie* rule and the state statute head on at 209 F.2d 476 by stating that California Code of Civil Procedure Section 1021 prohibits recovery of attorneys fees as part of costs in interpleader cases but ruled that the state law was not "determinative in diversity actions" citing *Palomas Land and Cattle Co. v. Baldwin* (9 Cir. 1951) 189 F.2d 936, an interpleader case brought under the federal interpleader statute, 28 USC 1335, rather than being based on diversity as was *Bank of China*. Thus, the lower court's decision in *Bank of China* was based on the decision in *Kellems* in which there was a state statute authorizing the award of attorney fees and the affirmance by this Court held state law not to be applicable in diversity actions on the basis of *Palomas*, a case in which the

decision was apparently based on the fact that jurisdiction rested on federal law and not upon diversity.

Even if the federal interpleader statute, 28 USC 1335, be considered to create but another specie of diversity jurisdiction (since it does require that two or more adverse claimants be of diverse citizenship rather than requiring that all of plaintiffs and all of defendants be of diverse citizenship as does 28 USC 1332) it is submitted that for the reasons stated by this Court in *Bliss v. Gotham Industries* (9 Cir. 1963) 316 F.2d 848 and *Stokes v. Reeves* (9 Cir. 1957) 245 F.2d 700, failure to apply the *Erie* rule in *Palomas* and *Bank of China* with regard to attorney fees renders these rulings erroneous and that the correct view is stated in the line of Illinois cases exemplified by *Aetna Life Insurance Co. v. Johnson* (N.D. Ill. 1962) 206 F.Supp. 63, wherein *Palomas* and *Bank of China* are discussed. In the unlikely event this Court should adhere to *Palomas* and *Bank of China*, those decisions would not support an award of attorney fees with regard to the non-patent side of the present case since, as pointed out in the previous section of this brief, they are interpleader cases which stand on an entirely different footing from this case insofar as attorney fee awards are concerned.

THE AWARD INSOFAR AS THE PATENT SIDE OF THE CASE IS CONCERNED

The bases upon which the trial court found this case to be "exceptional" within the meaning of 35 USC 285 appear in its Memorandum of Decision at pages 148-149 (R. 3707 and 3708) and are (1) undue and unnecessary prolongation of the litigation by plaintiff and (2) fraudulent representations to the Patent Office. Additionally, while not mentioned in the Memorandum of Decision,

Finding of Fact No. 136 (R. 3756), subsequently adopted, stated that the action was largely prosecuted in bad faith. However, we believe the record to make it clear that plaintiff did not engage in any such reprehensible activity so as to justify an award of attorney fees under this patent statute. Rather, the record shows that:

1. Plaintiff in no way unduly or unnecessarily prolonged the patent side of the litigation, this being the only portion of the litigation which can be considered as a basis for award under 35 USC 285.

2. To the extent that the court below based its finding of exceptionality on a conclusion that the patent cause of action was prosecuted in bad faith, this too was error because the court misconceived the effect of the applicable law.

3. Neither plaintiff nor any of its agents or employees made any fraudulent representations to the Patent Office. To the extent that there were any inaccuracies in the representations made by plaintiff to the Patent Office, such representations were believed to be true by plaintiff at the time they were made and defendants have completely failed to sustain the burden of proof required to establish that plaintiff knowingly and intentionally deceived the Patent Office. Furthermore, none of the representations found by the court below to involve fraud were relied upon by the Patent Office in issuing the patent in suit, these representations thus being immaterial and incapable in law of supporting a finding of fraud.

Aside from the matter of trial prolongation, which we believe can be disposed of summarily, the determination by the trial court that this case is exceptional within the meaning of 35 USC 285 results from misconceptions of law relating to the requirements for establishing a statu-

tory bar, from failure to recognize the complex nature of the questions of fact and law surrounding the prior uses set forth in Finding of Fact No. 92 (R. 3734) and from a misconception of the law regarding the nature of evidence required to meet the burden of proof necessary to establish fraud. Thus, we submit that the determination below that this case is exceptional must be set aside in keeping with the prescription of *Dubil v. Rayford Camp & Co.* (9 Cir. 1950), 184 F.2d 899, 903 that this must result when there is an “erroneous conception of law on the part of the trial judge.”

Furthermore, we submit that the record clearly establishes that the present case is far less susceptible of being found exceptional than was the lengthy and well-known controversy in *Union Carbide Corp. v. Graver Tank & Mfg. Co.* (7 Cir. 1965) 345 F.2d 409, 414, where the court found that the case was not exceptional simply because it was hard fought and where each party won something and lost something. The present case was certainly hard fought, but the proceedings here in no way compare with the monumental effort expended in *Union Carbide*, and here appellant prevailed upon the infringement issue and thus, as in *Union Carbide*, won something, even though it cannot be denied that should the trial court’s opinion on the merits stand unchanged, appellant here lost far more than it won.

Plaintiff Did Not Unnecessarily Or Unduly Prolong The Patent Case.

We have previously pointed out in detail why any award under 35 USC 285 must be restricted to the patent side of the case. Keeping this in mind, based on generous estimate, the record reflects that at the very most plaintiff spent no more than a total of 2 days in introducing the

Anderson patent (Exhibit 1/PS*) into evidence and in eliciting evidence relating to conception and reduction to practice and to infringement (see Tr. pages 931-72, 1123-48, 1157-81, 1323-31, 1767-69, 1940-60, 5273-5302, 5330-39, & 5404) and it must be pointed out that this strikingly economical effort was successful as to infringement as per the court's Memorandum of Decision, page 148 (R. 3707). Less than 10 days were devoted by plaintiff to rebutting defendants' position with regard to the Anderson patent (see cross examination & rebuttal testimony in Tr. Vols. 41, 42, 43, 65-67, 69, 93, 94 & 96-100). If, as the trial court apparently considered appropriate, the pre-trial proceedings be included in this evaluation, it is clear that an allotment of 3 of the 11 days consumed therein as attributable to the patent issues would be more than ample. Thus, plaintiff's activities in both trial and pre-trial devoted to the patent issues amounted to not more than a total of 15 days in a case which took some 100 days to try. If this be undue prolongation, it would indeed be difficult to find a case not "unduly prolonged".

Thus, we submit that the use of "undue prolongation" by the court below as a basis for the fee award under 35 USC 285 is clearly without even a vestige of support in the record and is apparently the result of the trial court's misconception of the law to the effect that the non-patent side of the case may be used as the support for an award of attorneys fees made under the patent statute.

Appellant Did Not Prosecute The Patent Cause Of Action In Bad Faith.

Although Finding of Fact No. 136 (R. 3756) states that the patent action was largely prosecuted in bad faith, this finding makes it quite impossible to determine at what point in time or what evidence of patent invalidity the

*Both plaintiff's and defendants' designations for exhibits are given where appropriate.

trial court considered determinative as to bad faith. Rather, this finding simply makes the vague statement that at an unspecified time during discovery unspecified grounds of invalidity were forcefully brought to plaintiff's attention such that further prosecution was in bad faith. Thus, this finding falls far short of the requirement of *Dubil, supra*, for a clear statement of the basis upon which attorney fees are granted.

The only grounds of invalidity not disposed of elsewhere in this brief are certain principal uses found to be anticipatory of the patent claims in suit (Finding No. 92, R. 3734) and to be statutory bars because not secret (Finding No. 94, R. 3735). Thus, we will explain in the following section of this brief why appellant retained a good faith belief in the validity of its patent in the face of the evidence relating to the uses identified in Finding No. 92 and will also briefly discuss the ex parte test described in Finding No. 135 (R. 3755) since this test is also referred to in Finding No. 136.

The Prior Uses Of Finding Of Fact No. 92.

In Finding of Fact No. 92(d)-(f) (R. 3734), certain uses by Northwest Magnesite at Cape May, New Jersey, Mathieson Alkali Works at Saltville, Virginia and Ideal Cement Company at Ada, Oklahoma are set forth. As to the Saltville and Cape May uses, it was appellant's position that neither of them could be a statutory bar because (1) the uses were secret and (2) the uses did not involve the Anderson invention because they were of lime and magnesite kilns, not cement kilns. As to the Ada use, it was appellant's position that the evidence of that use was entirely insufficient to establish any use at all prior to the filing date of the Anderson patent application. In this, appellant was entitled to, and did, rely on the fact that the burden of proof on he who attempts to establish a

statutory bar in the form of a public use is a very heavy one. As stated in *Radio Corporation v. Radio Engineering Laboratory* (1934) 293 US 1, 79 L.ed. 163, every reasonable doubt is to be resolved against a defendant relying upon the defense of prior invention. Similarly, in *Paraffine Companies v. McEverlast, Inc.* (9 Cir. 1936) 84 F.2d 335, 339, this Court recognized that the burden of proof on the issue of prior public use “rests heavily” upon the party seeking to show such use. See also *Tucker Aluminum Products, Inc. v. Grossman* (9 Cir. 1963) 312 F.2d 293, and *Amerio Contact Plate Freezers, Inc. v. Belt-Ice Corp.* (9 Cir. 1963) 316 F.2d 459.

Thus, at worst, appellant here did no more than put defendants to their proofs as to asserted statutory bars under circumstances where the burden of proof rested heavily on defendants. We submit that this can hardly be characterized as bad faith litigation.

Furthermore, we believe the record and applicable law to make it clear that the question of whether any of the uses recited in Finding No. 92(d)-(f) were statutory bars was an extremely close one and that appellant had every reason to believe that it could:

1. Establish that the Cape May and Saltville uses were secret rather than public;
2. Establish that the Cape May and Saltville uses were not uses of the patented invention; and
3. Establish that defendants' evidence as to the Ada use was no evidence of any use whatsoever, much less a public use of the patented invention.

**Appellant Could Reasonably Believe That The Cape May
And Saltville Uses Would Be Held To Be Secret So As
Not To Be Statutory Bars.**

It is well settled that a secret use, that is, one that does not inform the art, cannot be a statutory bar as to a patent. *Gillman v. Stern* (2 Cir. 1940) 114 F.2d 28, *Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co., Inc.* (2 Cir. 1946) 153 F.2d 516 and *Minneapolis-Honeywell Reg. Co. v. Midwestern Inst., Inc.* (7 Cir. 1961) 298 F.2d 36. Indeed, a defendant relying upon a prior use as a statutory bar must prove by clear and convincing evidence that the prior use "enriched the art", *Geo. W. Ashlock Co. v. Atlas-Pacific Engineering Co., Inc.* (D.C.N.D. Cal. S.D. 1963) 225 F.Supp. 205, modified (9 Cir. 1965) 339 F.2d 288.

The evidence relating to the Saltville and Cape May installations (see Tr. Vols. 51-56, 63, 96-A, 99 and 100) relied on by defendants to support their defenses both as to the non-patent and patent sides of the case (Tr. 5953) simply cannot be considered to clearly and convincingly establish that these uses were statutory bars. Only selected employees of the operators of these installations and the brick supplier, Harbison-Walker, had any knowledge of the short-shimmed linings used therein. The trial court ultimately concluded that even though this knowledge was restricted to the users thereof for their own purposes and commercial advantage to the exclusion of competitors and the remainder of the public, it was not secret and rendered the uses public. We have not brought the issue, as such, of whether these uses were public before this Court, but we submit it is clear beyond any doubt that appellant was entitled to litigate this issue below. This is all the more so when it is kept in mind that the evidence relating to the Cape May installation was substantially completely oral in character and thus sub-

ject to an extremely high degree of unreliability, *Zachos v. Sherwin-Williams Co.* (5 Cir. 1949) 177 F.2d 762, *National Latex Products Co. v. Sun Rubber Company* (6 Cir. 1959) 274 F.2d 224. Indeed, it has been held that such oral testimony cannot be relied upon to establish a prior use, *Washburn & Moen Mfg. Co. v. Beat 'Em All Barbed Wire Co.* (1892) 134 US 275. This is particularly true where, as here, the purported use is by a large, modern company which would reasonably be expected to possess documentary evidence and where, as here, no such evidence is produced.

The only documentary evidence of any kind in any way clearly relating to these uses is a letter from Harbison-Walker to Ideal Cement Company dated October 21, 1953 (Exhibit DF) that even arguably could be considered a disclosure of the short-shimmed linings to someone other than the operators or brick suppliers. However, rather than being evidence of non-secret use, this letter did not disclose the names of the "large chemical plants in the east" nor did it disclose the manner in which the lining was constructed. Certainly, this letter standing by itself does not operate to render an otherwise secret use public and we submit that it is far more indicative of a secret use than a public use.

With regard to the Ada installation, it should be noted that, although evidence was produced concerning the shim practices of Ideal Cement, there were no records establishing the installation of a short shim kiln lining there until 1955. All available documentation shows that the use of short shims in a kiln lining at Ideal began no earlier than 1955 (Exhibits 125, 128, 1076 and 1077). Exhibits 1076 and 1077 even refer to the "new shim". Evidence to the contrary is all oral testimony and thus must be subjected to severe scrutiny. *Washburn & Moen Mfg. Co. v. Beat 'Em All Barbed Wire Co.*, *supra*; *Zachos v.*

Sherwin-Williams Co., supra; National Latex Products Co. v. Sun Rubber Company, supra. We submit that this oral evidence adduced by appellees, controverted rather than supported by the documentary evidence, clearly fails to meet the burden of proof that must be successfully carried by the appellees. We therefore submit that appellant was completely justified in litigating the issue of the Ada “use”, and in expecting to prevail on it, and therefore was not acting in bad faith.

Appellant Was Entitled To Litigate The Question Of Whether The Cape May And Saltville Uses Were Of The Patented Invention.

Even assuming that the Cape May and Saltville uses were satisfactorily established as being public, appellant had reasonable grounds to litigate in good faith the issue of whether these uses were such as would anticipate the claims of the patent in suit because those installations were lime and magnesite kilns, not cement kilns. Differences exist between lime and magnesite kilns on the one hand, and cement kilns on the other (Tr. 12019-12021) so that the successful use of an article in one type of kiln would not necessarily suggest its use in the other type. Although the claims in question do not specifically recite a cement kiln, it has long been the rule in this circuit that the claims must be read in light of the specification. *Henry v. City of Los Angeles*, (9 Cir. 1919) 255 Fed. 769; *Bergman v. Aluminum Lock Shingle Corp. of America*, (9 Cir. 1957) 251 F.2d 801; *Hayes Spray Gun Company v. E. C. Brown Co.*, (9 Cir. 1961) 291 F.2d 319; *Hensley Equipment Company v. Esco Corporation*, (9 Cir. 1967) 375 F.2d 432. In *Del Francia v. Stanthony Corporation*, (9 Cir. 1960) 278 F.2d 745, this Court expressly stated that the specification of a patent can be used to limit a claim. The specification of the Anderson patent in suit

(Exhibit 1/PS) referred to cement kilns, and as will be discussed in more detail later in connection with the Wicken affidavit aspect of the fraud issue, the Patent Office Board of Appeals itself implicitly considered the claims in issue in the context of “cement” kilns. Interpreted in this manner, the claims of the patent in suit would have been limited to cement kilns in which case the uses at Saltville and Cape May could in no way have been considered as statutory bars and appellant was entitled to an opportunity to litigate this issue.

The Ex Parte Test.

While the primary underlying basis for Finding 136 (R. 3756) appears to be Finding 133 (R. 3754) which we have discussed above, the court further cited the “further fact” that appellant had by its own ex parte test described in Finding 135 (R. 3755) confirmed the fact that the short shim basic brick lining actually produced no discernible improvement in kiln operation. We will simply note that the test was conducted by installing in two kilns respectively short and full-shimmed linings, and that the persons who supervised the test felt that the short-shimmed installation gave better results (Tr. 1634; Tr. 2485; Tr. 2489-2495; see also Exhibit 585, pp. 8-9, pp. 32-34). Because variables between the two test kilns were not carefully controlled, it was concluded that the test results were not conclusive (Memorandum of Decision, p. 115, R. 3674). The test thus neither confirmed nor invalidated the conclusion that unexpected results flow from use of a kiln lining composed of short-shimmed brick. Appellees spent much time in establishing some of the deficiencies in the test, but it must be remembered that the purpose of the test was to establish that the invention in question was useful, a purpose

which renders the test almost immaterial since the utility of the invention is clearly established by Kaiser's adoption thereof as will be discussed later. We therefore submit that it was improper to impute any bad faith to the appellant in introducing evidence pertaining to this test.

Summary Re Lack of Bad Faith.

We have demonstrated that the various factors relied on by the court below in support of its conclusion that this action was largely prosecuted in bad faith by the appellant establish no such thing, but rather demonstrate only that appellant relied on the facts, presumptions of law, and legal theories that were available to it in securing the determination by a court of law on a number of highly involved issues. The court's apparent failure to recognize the complexities of the issues presented to it, and the proper law governing these issues, has resulted in the finding of bad faith, a finding which we submit is clearly erroneous. It is well settled that the good faith litigation of questionable issues is not such an act as to make a case exceptional under 35 USC 285. *Jacquard Knitting Machine Co. v. Ordnance Gauge Co.*, (D.C. Pa. 1952) 108 F.Supp. 59, affirmed 213 F.2d 503.

Significantly, the court below held the Anderson patent to be infringed (Memorandum of Decision, p. 148, R. 3707), a fact which emphasizes the good faith of appellant in prosecuting the patent cause of action.

That a long and protracted trial may make difficult an exercise of discretion by the trial court has often been noted by courts of appeal. *Union Carbide Corporation v. Graver Tank & Mfg. Co.*, (7 Cir. 1965) 345 F.2d 409; *Continental Can Co. v. Anchor Hocking Glass Corp.* (7 Cir. 1966) 362 F.2d 123. The District Court in the

present case, after such a trial, determined that the patent claims in suit were invalid. We submit that this conclusion, arrived at only after all of the issues were fully presented, may have seemed beyond doubt to the trial court, but it was certainly not such to appellant which engaged in lengthy and expensive litigation in its effort to enforce what it believed in good faith to be a valid patent.

APPELLANT MADE NO FRAUDULENT MISREPRESENTATIONS TO THE PATENT OFFICE

The Holding Of The Court Below Regarding Fraud On The Patent Office.

The court below held that appellant had practiced fraud on the Patent Office, (Findings of Fact 100-129 [R. 3737-53]). This finding of fraud appears to be based on the court's conclusion that appellant engaged in a pattern of conduct consisting of:

1. Deliberate concealment of the statutory bars from the Patent Office;
2. Falsehood in the petition to make special filed in the patent in suit;
3. Misrepresentations to the Patent Office as to "unexpected results"; and
4. False statements of novelty in the Wicken affidavit filed in the patent in suit.

However, we believe it important to note that the court recognized that there was insufficient basis in the record for finding that, standing alone, any one of the four foregoing elements would support a finding of fraud on the Patent Office. In this regard, the court said (memorandum of decision, page 147, R. 3706):

“An acceptable explanation may be plausible when each small point is isolated from the others, but when the picture is viewed in its entirety, the fact that the Patent Office was not told the then known truth is inescapable.”

With the exception of element 2 (the Petition to Make Special) which we will demonstrate could not have been the basis of allowance of the patent and was thus immaterial on the fraud issue, each of the foregoing elements, if established beyond a reasonable doubt, would not in and of itself support a finding of fraud. Thus, it is implicit in the holding of the court below that defendants did not sustain their burden of proof with regard to any single one of these elements, thereby leaving the court no alternative but to attempt, as it did, to shore up the deficiencies in evidence relating to each of these elements by relying on the mere presence of the other elements. We submit that this amounts to nothing more than using four unproven charges of fraud to construct a single charge of fraud which the court below was persuaded to accept as genuine. The seriousness of any charge of fraud and the severe burden of proof required to establish such a charge would themselves make such a practice highly questionable. In the present case, the state of the record is such that the law conclusively precludes any finding or inference of fraud based on elements 1, 2 and 4 and that the law is clear that defendants have fallen far short of meeting the requisite burden of proof with regard to element 3.

In the following sections of this brief, we shall demonstrate that the court's finding of fraud was clearly erroneous. However, before commencing our discussion of each of the aforementioned elements, we deem it

appropriate to point out the virtual *in toto* adoption* by the lower court of defendants' proposed fraud Findings 100-129 (R. 3737-3753); the statement by the court (p. 147, R. 3706) that it "has adopted the finding proposed by the defendants on the subject of fraud" which proposed finding (p. 147, R. 3706) was nothing more than a conclusion that fraud existed without a statement of the supporting reasons and which, curiously, never did find its way into the formal findings of fact; and the fact that the memorandum of decision entered below was cursory to the point of virtual silence with regard to the basic facts upon which the finding of fraud was based; all of which render it all but impossible to determine precisely what the trial judge actually considered significant in the meager evidence advanced by defendants on the fraud issue.

Furthermore, in order to avoid the necessity of repeating this point on several occasions below, we will pause here to acknowledge that we have not brought the holding of patent invalidity to this Court for review, for the reason that, given the requirements of Rule 52(a) and the evidence in the record supporting Finding 92(3) (R. 3734) relating to the Saltville use by Mathieson, we have no doubt that, although we continue to believe that the patent is valid, this Court would not reverse as to invalidity. However, we suffer from no such disability with regard to the asserted statutory bars which appellant assertedly concealed from the Patent Office because, even if it is conceded that all of the facts relating to these statutory bars were as defendants contended and as the court below found, these facts are insufficient in

* See *United States v. El Paso Natural Gas Co.*, (1965) 376 U.S. 651, 12 L.ed.2d 12, (particularly footnote 4) and *Roberts v. Ross* (3 Cir. 1965) 344 F.2d 747.

law to create statutory bars, much less knowing misrepresentation to the Patent Office, and failure to disclose them could not be fraud. Thus, we will include a discussion of why these specific purported statutory bars do not and could not invalidate the patent in suit even though this Court does not have before it the ultimate question of the validity of the patent in suit over all of the prior art of record, as well as a discussion of appellant's good faith. As to the latter, we will demonstrate that appellant did indeed disclose one of the purported statutory bars to the Patent Office which fact we believe sufficient, in and of itself, to render clearly erroneous Finding No. 102 (R. 3737) that statutory bars were fraudulently concealed.

APPELLANT DID NOT CONCEAL ANY STATUTORY BARS FROM THE PATENT OFFICE

The purported statutory bars which the court found to have been concealed from the Patent Office were 1955 sales of short-shimmed brick to and subsequent uses of kilns lined with such brick by Riverside Cement Co. (Finding of Fact No. 56, R. 3722) and Southwestern Portland Cement Co. (Finding of Fact No. 58, R. 3723), such short-shimmed bricks having been purchased from Kaiser and others by Riverside and Southwestern (Findings of Fact Nos. 98 and 99, R. 3736).

As to the notion of statutory bars based on sales we believe it appropriate to point out that Findings 98 and 99 were adopted by the court in the form proposed by defendants without change since the deficiencies in these findings are indicative of the problems created by the wholesale adoption of proposed findings. Finding No. 98 states that the "subject matter" of the "patent claims in issue" had been "on sale for more than one year" prior

to the filing of the continuation-in-part application which issued as the patent in suit. This finding is fatally deficient because the subject matter of the patent claims in issue is a "rotary kiln" and there is absolutely no evidence in the record or supportive findings relating to the sale of such kilns. More important, the reference in Finding 98 to Findings 55-58 and 62 as examples of the sales referred to in Finding 98 dramatically demonstrates the defective nature of Finding 98 since Findings 55-58 and 62 relate to the sale of *brick, not kilns*.

Finding 99 heaps more confusion upon this situation since it is but a nonsequitur. The first portion of Finding 99 states that the sales referred to in Finding No. 98 (it must be remembered that those sales related only to *brick*) and the use thereof by customers were regular sales and uses for profit, and "none of them constituted 'experimental use' of the invention at issue herein." This is superficially so only because the sale and use of brick cannot in any event be, experimental or otherwise, considered use of the rotary *kiln*, which constituted the invention, but is *immaterial* with regard to the question of whether a statutory bar was created. Furthermore, Finding 99 is improper because it is an effort by defendants, however ineffectual, to pass off a conclusion of law as a finding of fact; the term "experimental use" being, in context, nothing more than a legal conclusion as to whether the uses in question were "public" within the meaning of 35 USC 102(b) so as to qualify as statutory bars and this is doubtless the reason defendants felt themselves compelled to put the term "experimental use" in quotation marks in Finding No. 99. Thus, there is no need to scour the record to determine whether resort may be had to the "clearly erroneous" rule to dispose of findings such as these, rather they fall of their own weight because they simply make no sense and, in addition, par-

take more of the nature of conclusions of law than of findings of fact.

In the following sections of this brief, we will demonstrate that:

1. The sale of short-shimmed brick to Riverside or Southwestern does not constitute a statutory bar as to the invention of the patent in suit which is a lined kiln, not a brick. Furthermore, the 1955 uses of kilns lined with such brick by Southwestern and Riverside was experimental and could not create a statutory bar.

2. Even were the Riverside and Southwestern uses not experimental, they could not be statutory bars because the claims of the patent in suit are entitled to an effective filing date of February 4, 1955 which is earlier than these uses.

Neither The Sales To Or Uses By Riverside Or Southwestern Were Statutory Bars

In order for the 1955 activity of Riverside or Southwestern to qualify as a statutory bar under 35 USC 102 (b) such activity would have to be a public use or sale of "the invention". The invention defined in the patent claims in suit, and indeed the only invention disclosed or claimed in the patent, is a *rotary kiln*. Moreover, this invention is not any random type of kiln, but rather is a kiln having a lining composed of bricks. Thus, stated simply, this invention is a *lined kiln*.

Accordingly, in order to find a statutory bar at Riverside or Southwestern, we must find that a sale or a public use of a lined kiln took place at one or both of these companies in 1955. The question of "sale" can be disposed of with no difficulty. There is no evidence, nor are there any findings, directed to sales of lined kilns.

Rather, the findings, such as Nos. 55-58 and 62 relating to sales are concerned with sales of brick which are without consequence since a sale of but part of an invention cannot be a statutory bar under 35 USC 102(b). As held in *Goodwin v. Borg-Warner Corp.*, (6 Cir. 1946) 157 F. 2d 267, 272:

“The public use which invalidates an invention under Section 31, 35 U.S.C. [now 35 U.S.C. 102(b)] is a public use of the very invention patented.”

Similarly, in *Hemphill Co. v. Jordon*, (M.D. N.C. 1949) 86 F.Supp. 248, 250-51, affirmed in part and reversed in part, (4 Cir. 1950) 180 F.2d 457, the court said:

“These sets of parts were not assembled in such a manner as to form the combination claimed by the 2,146,750 patent in suit prior to February 3, 1932. In order to constitute a disclosure to the public such as would constitute a prior public use or sale, these parts had to be completed, delivered and accepted. The completion in this case would require the assembly of these parts on a knitting machine. Thus, even if these parts did include a latch ring which had a gap closer, they were shipped by freight from Pawtucket, R. I. to Milwaukee, Wisc. on January 30, 1932 did not constitute a prior public use or sale of a completed combination embodying the subject matter of the claims of the 2,146,750 patent in suit.”

We must turn then to the question of public use. We do not deny that there was a sale of short shimmed bricks in 1955 to Riverside and Southwestern and we do not deny that these bricks were installed in rotary kilns so as to bring into being lined kilns coming within the scope of the patent claims in suit. However, we do deny that this assembly in and of itself constitutes a public use of the invention within the meaning of 35 USC 102(b) be-

cause such assembly does not meet the minimum standard which the courts of the land have uniformly held to be required by the statute, *viz.*, successful completion of the invention which is often referred to in the authorities as “reduction to practice”. As stated in *Monroe Auto Equipment Co. v. Heckethorn Manufacturing and Supply Co.*, (6 Cir. 1964) 332 F.2d 406, 415:

“In order to anticipate, a prior device, though it does not have to be patented, must have been reduced to use and successfully performed.” (Citing this Court’s decision in *Stearns v. Tinker & Razor*, [9 Cir. 1955] 220 F.2d 49)*

Similarly, the law is well settled that an invention is not actually reduced to practice until it has been field tested when it is of such a nature that those skilled in the art would require field tests to prove that the invention will work as intended. In the words of Learned Hand in *Sinko Tool and Manufacturing Co. v. Automatic Devices Corp.*, (2 Cir. 1946) 157 F.2d 974, 977:

“The doctrine to be drawn from the books, as we read them is this — and incidentally it is the only doctrine that can find support in reason: a test under service conditions is necessary in those cases, and in those only, in which persons qualified in the art would require such a test before they were willing to manufacture and sell the invention, as it stands.”

See also *Minnesota Mining and Manufacturing Co. v. VanCleaf*, (7 Cir. 1943) 139 F.2d 550; *Consolidated Vultee Aircraft Corp. v. Maurice A. Garbell, Inc.*, (9 Cir. 1953) 204 F.2d 946; *In re Hartop*, (CCPA 1962) 311 F.2d 249; *Field v. Knowles* (CCPA 1950) 183 F.2d 593; and *Sherman v. American Telephone and Telegraph Co.*,

*See also *Amerio Contact Plate Freezers, Inc. v. Belt-Ice Corp.*, (9 Cir. 1963) 316 F.2d 459.

(S.D. N.Y. 1941) 38 F.Supp. 360, affirmed (2 Cir. 1942) 132 F.2d 321.

In the present case, there can be no doubt that neither Southwestern or Riverside on the one hand nor Kaiser on the other hand considered the 1955 uses to be anything more than trials or experiments to determine whether the lined kilns would operate as intended with the short shimmed bricks.

Turning now to the facts established by the evidence, the crucial questions to be answered are (1) do the patent claims in suit define an invention of such a nature that those skilled in the art would require field tests to prove that the invention will work as intended? and (2) if so, what type and extent of field testing is required to result in reduction to practice of the invention? As to the first of these questions, we submit that the record in this case permits no doubt that field testing was required to reduce the invention of the patent to practice since the testimony of all of the witnesses having skill in the art and all of the relevant documents are consistent with this view. As to the second of these questions, the record is equally clear that the intended purpose of a lined kiln is that it operate for lengthy periods of time such that reduction to practice could not be achieved until such lengthy operation had occurred.

We will not attempt to cite here every piece of evidence relevant to the fact that field testing of lined kilns is necessary to prove to those skilled in the art that an innovation or invention relating to such lined kilns will work as intended. Rather, it suffices to point out that there is absolutely no evidence to the contrary and to point out the following examples of the strong evidence which establishes this fact.

The necessity for field testing of lined kilns is perhaps best expressed by Kaiser's own people of long experience in the kiln art. For example, in Ex. 130/ED the Kaiser executive Davis indicated that "actual field experiences" would be necessary to "get the answer" with regard to whether kilns lined with short-shimmed brick would function satisfactorily. Indeed, the court itself characterized this exhibit as follows in its Memo. of Decision at page 69 (R. 3628):

"He is recommending that Petersen keep an open mind and that *only field experience* will furnish the information from which valid conclusions can be drawn." (Emphasis added)

To the same effect is Ex. 950/GV also authored by Davis which states in part:

"It has been our experience that a surprisingly *large number* of carefully observed *field trials* are required to evaluate both refractories themselves and various methods of refractory construction. This, of course, is so because of the great number of other variables which come into play, even in the same furnace." (Emphasis added)

The view of appellant's seasoned kiln operators was no different as is evident from the court's statement in the Memo. of Decision at page 66 (R. 3625):

"Johnson pointed out that Oberg was quite worried about the durability because it was an experimental lining which Oberg approved and it would have to last a number of months to justify the expense."

Thus, although no formal finding of fact to this effect was proposed by defendants or entered by the court below, the uncontroverted evidence and the court's

Memo. of Decision (R. 3628) make it clear that an innovation in lined kilns such as the use of short-shimmed bricks to construct the lining must perform satisfactorily in a field test before it can be accepted by those skilled in the art.

The fact that in order for a lined kiln to be acceptable to those skilled in the art it must be capable of operating continuously for an extended length of time, i.e., it must have an acceptably long lining life, is likewise not covered by any formal finding of fact proposed by defendants or entered by the court, but is indisputable on the record and is recognized by the court in its Memo. of Decision at page 18, (R. 3577) where it said:

“Once a kiln is placed in operation, it is run continuously for as long as possible.”

Similarly, as we have previously noted, the court (R. 3625) recognized the legitimate concern of appellant's employee Oberg that an experimental lining might not last the “number of months” required to justify its expense. Perhaps the most authoritative recognition of this fact appears in the affidavit of John M. Sauer (R. 918-922), who had been an employee of Riverside Cement Company, a competitor of appellant, for more than 25 years at the time he executed the affidavit and was at that time Division Superintendent at the Oro Grande facility of that company. In Mr. Sauer's words (R. 922):

“The length of the lining's life is an extremely important aspect of the lining;...”

With regard to the length of life required for an acceptable lining, Mr. Sauer said (R. 920):

“Burning zone linings, as a whole, last many months. In normal operation of a kiln they require replacement once or twice a year...”

Thus, not only are field trials necessary for reduction to practice of a lined kiln, but such trials must demonstrate that the kiln is capable of operating for an extended length of time on the order of six months to a year before it can be considered acceptable. Furthermore, a single field trial is not sufficient because of the many variables involved, but rather “a surprisingly large number” of such trials must be performed (Ex. 950/GV).

We have previously demonstrated that the fact that Kaiser or others sold brick to Riverside and Southwestern for the 1955 uses is legally irrelevant to the question of whether such uses constitute a statutory bar as to the invention claimed in the patent in suit because this invention is not brick but a lined kiln. Equally important is the absence of any finding of fact that the 1955 uses by Southwestern or Riverside constituted, taken individually or together, field trials sufficient in length and number so as to achieve reduction to practice of the invention prior to the statutory bar date. Only Findings Nos. 77 (R. 3729) and 99 (R. 3736) even approach this question.

We have already pointed out that Finding No. 99 which was adopted verbatim by the Court is, insofar as it is a finding of fact at all, directed to sales of *brick* and use of such brick by *installation* in a kiln, not to use of a lined kiln. Since use of a lined kiln is the only use which could possibly qualify as a statutory bar in the present case, Finding 99 and Findings 55-58, 62 and 98 which are incorporated therein by reference fall far short of stating the requisite facts for a statutory bar. Furthermore, to the extent it attempts to deny “experimental use”, Finding 99 is nothing more than a conclusion of law since denial of experimental use is nothing more than another way of concluding public use and there can be no

doubt that a conclusion of public use is a conclusion of law as is evident from Conclusion of Law No. 22 (R. 3761-62) adopted by the court below.

At the very least, the statement regarding “experimental use” in Finding 99 involved a mixed question of law and fact and this Court has long held that it is not bound to apply the “clearly erroneous” test of Rule 52 (a) to such findings, but is free to review the record and substitute its own findings, *Weible v. United States*, (9 Cir. 1957) 244 F.2d 158, 161, 162.

Stated differently, when the findings of the court below go beyond the basic facts and involve inferences or ultimate conclusions such as that in Finding 99 regarding experimental use, the courts of appeals have long recognized that they are at least as well situated as the trial court to reach such conclusions and draw such inferences. *Kuhn v. Princess Lida of Thurn and Taxis*, (3 Cir. 1941) 119 F.2d 704, 705, 706.

This is all the more so when, as in the case of Finding 99, the finding is a verbatim adoption of a finding proposed by the prevailing party.

As for Finding No. 77, there is no indication therein that it refers to the 1955 uses by Riverside or Southwestern and the court’s amendment of this finding limits it to field trials or experiments “made on behalf of plaintiff or defendants”. Since it is clear as a matter of simple logic that a given use could be performed without any connection whatsoever to plaintiff or defendants and still be a field trial or experiment so as to disqualify it as a statutory bar, Finding No. 77 in no way binds this Court to the view that the uses at Southwestern and Riverside were not experimental.

Turning now to the evidence on this point, there can be no doubt that Kaiser considered the 1955 uses at

Riverside and Southwestern of kilns lined with Kaiser's short-shimmed brick to be experimental and its attitude is summed up in Ex. 183/FZ, an inter-office memorandum dated April 26, 1955 from Putnam to Davis, with a copy to Palmer Ford, all of Kaiser, which reads as follows:

"I have your handwritten note concerning your discussion with Palmer relative to the follow-up on the 'L-plated' brick at Riverside Cement, Oro Grande, and also your reference to the fact that Palmer has sold this brick to Southwestern Portland Cement at Victorville.

"I want to assure you that it is my firm belief that Palmer is keenly interested in following both of these installations and reporting the facts. In addition, I know that he will follow the performance of these results so that we may be completely apprized (sic) of the results. After all, it seems to me that Palmer has actually more interest (sic) in these *trials* than we do since he has been trying so hard to prove a point which *none of us seem to buy* at this writing. Unless I miss my guess, he will swamp us with all sorts of facts and figures." (Emphasis added)

That the Kaiser view was accurate is made clear by another reliable source, John M. Saner, Division Superintendent of the Riverside Cement Company at Oro Grande who, in his affidavit, said (R. 922):

"Although affiant has never recommended or directed the installation of a lining which he expected to be a failure, the 1955 Oro Grande linings described in the October 13, 1961 affidavits were *trial* or *experimental* installations whose usefulness could not be determined until, among other things, the full lining life of several similar installations

was determined. The length of the lining's life is an extremely important aspect of the lining; and it took at least a year after the first 1955 lining described in the October 13, 1961 affidavit to determine the full lining life of the kind of linings described in that affidavit." (Emphasis added)

Mr. Sauer's employer, Riverside Cement, is a direct competitor of appellant and this fact imparts to his testimony the highest order of reliability.

We cannot offer this Court a similar statement by a Southwestern employee with regard to that company's 1955 use, but reference to the record makes it clear that appellant cannot be held responsible for this lack of evidence. In this regard, we respectfully direct this Court's attention to pages 5040-5069 of the Trial Transcript (Appendix, Part 3).

This portion of the trial transcript contains direct testimony by Jackson H. Woodward, Assistant Superintendent of the Southwestern Portland Cement Co. in 1955. At page 5046 of the trial transcript, Woodward testified that the Kaiser short-shimmed brick installed in 1955 in the Southwestern kiln did not constitute a complete burning zone and that at least one other type of vastly different brick was also used in the same burning zone of the kiln. Then, trial counsel for appellant repeatedly indicated that he wanted to explore the question of whether the 1955 use by Southwestern was "experimental" (page 5048) to explore whether it was "for comparative testing purposes" (page 5049), and to "find out what the facts of" this particular lining were (page 5050). These attempts were met by repeated objections by counsel for defendants and, in the end, prevented by the court below which said (page 5050) "but it is a fact that you have to show that this is Kaiser's experiment,

if you are going to say it is an experimental use.” This statement by the court reveals, of course, a serious misconception of the patent law since, as we have demonstrated above, the authorities make it clear that statutory bars in an art such as that relating to lined kilns cannot come into existence until successful field testing has been completed. The trial court’s misconception in this regard was undoubtedly encouraged in substantial part by the urgings of counsel for defendants, e.g., page 5047, where it was contended that sale of the *Kaiser brick* would constitute a statutory bar as to the lined kiln recited in the patent claims. Again, we have previously demonstrated that this is simply not the law.

The court then called counsel into chambers and at page 5056 trial counsel for appellant again explained that he was attempting to establish that the 1955 use at Southwestern was experimental. After counsel for defendants repeated his objections to this line of questioning, the court advised trial counsel for appellant as follows at page 5058:

“I am going to tell you what is going to be the result. The result is going to be that I have to sustain the objections to it on the ground it doesn’t meet any of the issues. I am willing to let you get it in if you do it in a hurry and get it over with.”

The result of the proceeding in chambers was that it was made clear to trial counsel for appellant that he could question Woodward only with regard to whether Southwestern was carrying out an experiment *for Kaiser* and that he would not be allowed to explore whether Southwestern was conducting an experiment of its own with the kiln having the short-shimmed brick lining.

Thus, at page 5064, Woodward was asked whether “this short-shimmed lining was to be an experiment on Kaiser’s part in connection with the Southwestern company?”. The witness answered:

“No, I wouldn’t say it was *that way*. We have always *tested* different—well, in the case of bricks, different types of bricks and other material which we used at the plant. We are always interested in a new idea or a new article.” (Emphasis added)

Thus, there was every indication that had trial counsel for appellant been allowed to explore this matter, he would have been successful in eliciting testimony from Woodward that he considered, as did Saner regarding the Riverside 1955 use, the short-shimmed brick lining by Southwestern in 1955 to be experimental. We submit that the court’s refusal to allow appellant’s trial counsel to obtain such testimony from Mr. Woodward was reversible error.

Fortunately, Mr. Woodward was not the only source of evidence regarding the experimental nature of the 1955 use at Southwestern. Rather, it is once again the Kaiser documents which establish this. We have already noted Ex. 183/FZ which refers to the 1955 uses at both Riverside and Southwestern as “trials”. In Ex. 186/GA, a call report dated April 27, 1955 relating to a visit by Palmer Ford of Kaiser to Southwestern stated:

“They are watching our experimental lining with intense interest.”

Thus, there is no need to remand this case for the taking of further evidence as to whether the 1955 use by Southwestern was experimental since there is ample evidence, in no way controverted, to establish that this was the fact. That the experiment was being conducted by

Southwestern rather than Kaiser cannot elevate this experimental use to the stature of an invalidating public use. However, it would appear that the trial court did not understand this since, referring to the 1955 use at Southwestern, the court said at page 5056:

“But they bought them. Up to now the evidence shows that these guys are just as interested in experimenting as anybody else, and they are willing to take the risk. It may be that it is a pretty poor product that they would try to experiment with some time or another and lose the lining. On the other hand, they might find something good. So it is *their experiment*, and not the other fellow’s.”
(Emphasis added)

Thus, it would appear that the court recognized that Southwestern was conducting an experiment, but concluded that since Southwestern had “bought” the *bricks* which were being used in the experiment, the experiment still qualified as a statutory bar. At the risk of being redundant, we again point out that it is legally immaterial that Southwestern purchased the bricks from Kaiser since it is the lined kiln recited in the patent claims to which attention must be directed with regard to determining whether there was a statutory bar, not the bricks. Carried to its logical conclusion, the theory urged by defendants and accepted by the trial court that the sale of the bricks constituted a statutory bar as to the patented lined kiln would preclude any activity in which the materials being used had been purchased from being an experimental use under the patent law. One need only reflect that this would mean that all of the experiments being carried out in all of the industrial laboratories in this country with purchased chemicals, equipment, etc. could not be experimental uses to establish defendants’ theory as untenable. Yet, this is no

more absurd than the contention made by defendants that the sale of brick was a statutory bar as to a patented kiln which the court below was somehow persuaded was a proper application of the law.

In *Elizabeth v. American Nicholson Pavement Co.*, (1878) 97 U.S. 126, 24 L.Ed. 1000, it was established that a mere experimental use is not a public use which will invalidate a patent. In that case, the inventor, a stockholder and officer of a toll road corporation, had invented a road. In order to test the road for durability, the inventor built a section of his road in a Boston toll road operated by his corporation. The road was built in 1848 and publicly used for *six years* before a patent application was filed. The inventor frequently inspected the road to see how it was wearing. The Supreme Court held that in the case where the invention must be tested for a long time to determine its durability, such use is experimental and does not constitute a public use. The court explained the doctrine of experimental use at 24 L.Ed. 1004 (Appendix, Part 4)

We have thus demonstrated that the 1955 uses by Riverside and Southwestern were not statutory bars because they were experimental. Therefore, whether they were disclosed or not disclosed to the Patent Office is legally immaterial and there is no way these uses can be relied upon as basis for finding that fraud was practiced on the Patent Office. This being so, it is far easier to conclude that a finding of fraud could not be based on failure to disclose the experimental uses of Riverside and Southwestern to the Patent Office than it was to decide that there was no fraud in *Duff-Norton Co. v. Ratcliff*, (9 Cir. 1966) 362 F.2d 551, 553 where this Court said:

“In our judgment the prior art which the inventor is accused of failing to reveal is not so undis-

putably and obviously relevant as to disclose actual knowledge that the subject matter of the proposed patent was anticipated.”

Here, not only do the alleged public uses constitute experimental uses which are demonstrably not prior art, but were there any doubt in this regard, it would have to be resolved in favor of appellant since recognition of a public use involves a very elusive legal question which, as recognized in *Huszar v. Cincinnati Chemical Works*, (6 Cir. 1949) 172 F.2d 6, 11, “. . . is one that for many years has troubled the courts with no unanimity of decision thereon. . .”.

Furthermore, as also stated in *Huszar*, since it “is an established and salutary principle that fraud is never to be presumed but must be proved by clear and convincing evidence”, no fraud could possibly arise from failure to disclose the Riverside and Southwestern activities to the Patent Office. If this were not enough, appellant’s belief that these uses were experimental was, as we shall demonstrate in a subsequent section of this brief, in good faith and indeed appellant did in fact disclose the Southwestern 1955 use to the Patent Office for the purpose of urging the patentable nature of the invention. Were not the fraud finding by the court below of such a serious nature, we might pass over still another reason why the Riverside and Southwestern uses could not be statutory bars, but given the circumstances we are compelled to devote the following section of this brief to an explanation of why the patent claims in suit are entitled to an effective filing date earlier than those uses.

Even Were The Riverside And Southwestern Uses Not Experimental, They Could Not Be Statutory Bars Because The Patent Claims In Suit Are Entitled To Have Effective Filing Date Prior To The Dates Of These Uses.

The patent in suit is, of course, a continuation-in-part of copending application Serial No. 486,227, filed February 4, 1955. Thus, all subject matter disclosed and claimed in the patent which is common to that disclosed or claimed in the parent application is entitled to the filing date of the parent application pursuant to 35 USC 120.

The trial court (R. 3702) held that the patent claims in suit are based on new matter and are not entitled to the filing date of the parent application. The court's decision does not specify the new matter, but in Finding 102(a) and (c), the recitations directed to a kiln lining structure composed of bricks of "substantially uniform physical and chemical composition throughout" and to the "basic" nature of the brick are specified as new matter.

Turning now to the recitations in question, we will first consider "substantially uniform physical and chemical compositions throughout" which was used in the continuation-in-part application which issued as the patent in suit and "substantially uniform composition throughout" which was added by amendment in the parent application. Both of these limitations are directed to the brick used to make up the kiln lining. We submit first that in the absence of any indication to the contrary, the word "brick" is the conventional article which does have a substantially uniform physical and chemical composition throughout. There is nothing in the re-

cord to indicate that the word brick as used in the rotary kiln art has any different meaning and, with the partial exception of Heuer Patent 2,230,141, all of the prior art of record is concerned with kiln linings comprising homogeneous brick. Still further, the affidavit of the inventor filed in the parent application (Ex. 3/U, page 21) clearly states that the word "brick" meant to the inventor an article having a substantially uniform composition throughout and that he was not aware of the word ever having been used to designate any other type of structure. Thus, both common sense and the record establish that Finding 102(a) (R. 3737) and Finding 102 (b) (R. 3737) are clearly erroneous insofar as they characterize the language "substantially uniform physical and chemical composition throughout" to be subject matter "not common" in the parent and continuation-in-part applications and insofar as they attempt to characterize the language "substantially uniform composition throughout" added by amendment in the parent application on March 12, 1956 as "new matter".

With regard to the recitation "basic" we need only look as far as the court's own decision and one of appellees' findings which was adopted verbatim by the court to establish that it was inherent in the parent application that the brick referred to therein was "basic". Such brick was conventionally used in rotary kiln linings at the time the parent application was filed and the trial court so found (Finding No. 16, R. 3712).

The law has long recognized that amendment of a patent application to make explicit what was inherently implicit therein in no way involves the introduction of new matter, and that such amendments may be freely made and are entitled to the original effective filing date of the application. As stated in *Webster Loom Co. v.*

Higgins, (1882) 105 US 580, 26 L.ed. 1177, with regard to the function of a patent specification:

“He may begin at the point where his invention begins, and describe what he has made that is new, and what it replaces of the old. That which is common and well known is as if it were written out in the patent and delineated in the drawings.”

Given the specification in the parent application in the present case, we submit that there can be no doubt that one skilled in the art would immediately understand that the new feature described therein was constructing a brick kiln lining using a metal shim which did not extend to the kiln shell, i.e., a “short” shim. That which was common and well known would in like manner be understood by one skilled in the art to be that the bricks had a substantially uniform physical and chemical composition and would conventionally be basic.

That the rationale of *Higgins* has lost none of its vitality is clearly evident from the recent decision in *General Tire and Rubber Co. v. Brenner*, (D.C. Cir. 1967) 381 F.2d 270, a case strikingly similar to this one in which reliance upon a parent application was allowed to establish an effective filing date for an invention involving the use of an unplasticized rubber even though the word “unplasticized” did not appear in the parent application in view of the fact that such rubber was known to exist in the unplasticized state at the time the parent application was filed.

Indeed, it has not been so long since this Court considered this “new matter” question in *Locklin v. Switzer Bros., Inc.*, (9 Cir. 1961) 299 F.2d 160, 167 and concluded:

“The amendment actually amounted to no more than a *narrowing* of the claims to articulate a limitation

implicit in the specifications but *not explicit* in the claims themselves. The circumstances under which the amendment was filed would indicate that it resulted from the ordinary give and take of Patent Office procedures: the shaping of the expression of that which was sought in order to make it conform appropriately to that which it was felt could properly be granted.” (Emphasis added)

In the present case, the recitations directed to “uniform composition” and “basic” obviously narrow the claims to make explicit that which was previously implicit and come squarely within the holding in *Locklin*. Also, as in *Locklin*, it was the Examiner in the present case who suggested that the claims be limited to “basic” brick (Tr. 8797 and 11171) because the testing of the invention was limited to basic brick linings and it was the Examiner who suggested that the bricks further be identified as of uniform “physical and chemical” composition (Ex. 2/V, page 104).

The same reasoning has been applied to reissue patents which are subject to the statutory command of 35 USC 251 which provides, “No new matter shall be introduced into the application for reissue”. Fully aware of this statute, the court in *Weller Manufacturing Co. v. Wen Products, Inc.*, (7 Cir. 1956) 231 F.2d 795, 799 said:

“Obviously, a patentee is not forbidden to add as new material in a reissue patent a description of the inherent function and mode of operation disclosed in the original patent.”

We believe it highly unlikely that the foregoing discussion permits any doubt to remain as to the entitlements of appellant to rely upon the filing date of its parent application with regard to the recitations “substantially uniform physical and chemical composition

throughout” and “basic”, but any such doubt must be dispelled by the fact that, in the end, the Patent Office recognized that such reliance was proper even though it had earlier rejected the amendment in the parent application adding the language “of substantially uniform composition” as new matter. Since this rejection in the parent application was made *after* the continuation-in-part application had been filed, appellant did not pursue the issue in the parent application and, as was its right, elected to prosecute the continuation-in-part application in its stead. The new matter question was put directly in issue in the latter application when the Examiner rejected claims therein as unpatentable over Davis patent 2,829,877 (Ex. 2/V, page 113) and characterized the Davis patent as disclosing a kiln lined with brick which were “*physically and chemically homogeneous* and preferably of *basic* refractory” (emphasis added). In appellant’s responsive amendment filed May 26, 1958 (Ex. 2/V, page 134-145), it was pointed out that the Davis patent was filed on September 9, 1955 and that appellant’s application was a continuation-in-part of the parent application filed February 4, 1955. On this basis, appellant took the position that the Davis patent was not a proper reference because its filing date was subsequent to that of appellant’s parent application upon which appellant was entitled to rely. In the next Office Action, the Examiner stated that the Davis patent had been “withdrawn” (Ex. 2/V, page 200). Thus, on the one occasion when the Patent Office was called upon to make its own determination with regard to the question of whether the recitations referred to in Finding No. 102 (R. 3737) were “new matter” or “not common” to the parent application, it decided in favor of appellant. We submit that the Patent Office expertise with regard to such determinations cannot be lightly disregarded and

that this determination confirms our own analysis as set forth above. In this regard, we trust that defendants will not repeat in this Court the untenable contention which they made below (R. 975-978) that the election by appellant to prosecute the continuation-in-part application rather than the parent application caused *res judicata* to attach to the new matter rejection in the parent application. Such is not the law, *In re Hitchings*, (CCPA 1965) 342 F.2d 80, 83, wherein the court held that *res judicata* could only attach to "a final determination on appeal before the Patent Office Board of Appeals or a court". In the present case, the parent application did not even go as far as final rejection by the Examiner, much less to appeal to the Board of Appeals or a court.

The Patent Office Proceedings Involving The Halstead Affidavit Are Further Evidence That The Patent Office Considered The Patent Claims In Suit To Be Entitled To The Filing Date Of The Parent Application.

Late in the prosecution of appellant's continuation-in-part application, an affidavit by O. Halstead, Superintendent of the Southwestern Portland Cement Company plant at Victorville, California from a time prior to 1955, was submitted for the purpose of providing further evidence, although cumulative in nature in view of the Kaiser advertisements which had previously been submitted to the Patent Office, of the very favorable recognition accorded by the cement industry to the invention claimed in the application (Ex. 2/V, pages 337-339). This affidavit clearly states that on April 4, 1955 Southwestern received an initial order of short-shimmed brick from Kaiser and that Southwestern placed orders for such brick on June 11, 1955 with Harbison-Walker and

on July 22, 1955 with General Refractories Company. Thus, this affidavit explicitly advised the Patent Office of the very transactions which the court held to be “public uses” which were “concealed” from the Patent Office. It is of considerable interest that this affidavit is mentioned neither in the court’s memorandum of decision nor in the findings of fact proposed by appellees and adopted by the court even though trial counsel for appellant argued strenuously in his post-trial brief on the patent issues (R. 3148-3364) that this affidavit precluded any inference that appellant had concealed anything from the Patent Office regarding the activities of Southwestern (R. 3282).

In the proceedings below, defendants countered (R. 3452-53) with the rather remarkable contention that the Halstead affidavit was evidence of fraud because appellant had extra-cleverly submitted it at a stage in the Patent Office proceedings when it would not be considered by the Patent Office even though the Patent Office Board of Appeals in its decision dated more than a month later than the filing date of the Halstead affidavit stated that it had considered “*all of the affidavits and other evidence submitted by appellant*” (emphasis added) (Ex. 2/V, page 347).

Had the Patent Office been of the view that appellant was not entitled to rely upon the filing date of its parent application as the effective filing date of the patent claims here in suit, the Halstead affidavit would certainly have raised the question of whether the Southwestern activities were statutory bars since it is not clear from the affidavit that these activities constituted, as they did, an experimental use. Thus, the treatment of the Halstead affidavit by the Patent Office is further strong corroboration of the fact that the withdrawal by the Patent Office

of the Davis patent as a reference was a recognition that the patent claims in suit were entitled to the filing date of the parent application.

Even If 1955 Use By Riverside Was A Statutory Bar, Failure To Disclose It Could Not Involve Fraud Because Appellant Held A Good Faith Belief That Such Use Was Experimental And That Effective Filing Date Of Patent Claims In Suit Was Earlier Than This Use.

Once again, we are constrained to point out that it is because fraud is such a serious charge that we have no alternative but to vigorously attack every mistaken premise and conclusion involved in the fraud finding herein. Thus, even though we have already established that the Riverside and Southwestern uses were not statutory bars and that the Southwestern use was disclosed to the Patent Office in the Halstead affidavit, we will now assume *arguendo* that these uses do qualify as such bars and will demonstrate that the requirements for proving that appellant practiced fraud on the Patent Office by not disclosing to it the Riverside use have not been met. In order for there to be fraud, not only would the Riverside use have to be a statutory bar different in kind from the Southwestern use, but so also would it have to be established that (1) appellant did not have a good faith belief that (a) the Riverside use was experimental, (b) the Riverside use was not different in kind from the Southwestern use and (c) it was entitled to rely upon the filing date of its parent application; (2) that appellant deliberately concealed such use from the Patent Office; (3) that such concealment was for the purpose of inducing the Patent Office to grant the patent in suit; and (4) that had the use been disclosed to the Patent

Office, it would not have granted the patent. Should it be concluded that the defendants did not meet the very heavy burden of proof imposed by law on he who attempts to establish fraud with regard to *each* of these elements, there can be no finding of fraud.

However, before we demonstrate that defendants did not meet the burden of proof required to establish fraud, we will point out that it is not even necessary to reach the burden of proof question to dispose of the fraud question found by the trial court to be involved in the purported concealment of statutory bars from the Patent Office. Such disposition requires only consideration of the legal effect of the Halstead affidavit which is necessarily such as to preclude any finding of fraud.

The Legal Effect Of The Halstead Affidavit

We have previously demonstrated that the record establishes beyond any question or doubt that the Halstead affidavit constitutes a disclosure by appellant to the Patent Office of the 1955 activities of Southwestern and that there is nothing in the court's Memorandum of Decision or the findings of fact proposed by defendants and adopted by the court to the contrary. It is also clear from the court's Memorandum of Decision (R. 3702) and the findings of fact, e.g., Finding No. 59 (R. 3723) that neither defendants nor the court made any distinction whatsoever as between the 1955 use at Riverside and the 1955 use at Southwestern.

Thus, it is undisputed in the record that the Riverside use which was not disclosed to the Patent Office was no different from the Southwestern use which was undeniably disclosed to the Patent Office.

Accordingly, appellant is in no different position here than was the patentee in *Sarkes Tarzian, Inc. v. Philco Corp.*, (7 Cir. 1965) 351 F.2d 557, 560 where the court said:

“The District Court implied plaintiff had violated a duty to disclose certain prior art to the Patent Office during the prosecution of the patent application. We think, under the facts of this case, plaintiff should not be penalized for failure to disclose ‘prior art’ items to the Patent Office when, . . . it is apparent that none of them was more pertinent than the prior art which was known to the Patent Office.”

To hold that there can be no fraud when that which is not disclosed to the Patent Office is no different from that which is disclosed to the Patent Office is but a common sense recognition of the legal requirement for a showing of materiality before there can be a finding of fraud. Stated differently, it simply cannot be said that the Patent Office would have acted any differently on appellant’s patent application had both the Southwestern and Riverside uses been before it, rather than just the Southwestern use, keeping in mind that these uses were the same insofar as they tended to raise the question of whether a statutory bar existed.

Were we concerned here with a matter less serious than a charge of fraud, we would be content to rest our case on the foregoing analysis of the facts and law. However, we will now turn to a discussion of the burden of proof required to establish fraud, the utter failure of defendant’s evidence to meet this burden and the substantial evidence of appellant’s good faith belief that the 1955 uses at Riverside and Southwestern were (1) experimental and (2) later than the effective filing date of the

patent claims in suit so as to preclude such uses from being statutory bars.

The Burden Of Proof Required To Establish Fraud

This Court gave clear recognition to the principle that a very heavy burden of proof must be met to establish fraud in *Canada Life Assurance Co. v. Houston*, (9 Cir. 1957) 241 F.2d 523, 538 when it acknowledged:

“The presumption is always against fraud, a presumption approximating in strength to that of innocence of crime, * * *.”

The burden is no different when fraud is charged in a patent case as recognized in *Huszar v. Cincinnati Chemical Works*, (6 Cir. 1949) 172 F.2d 6, 11 where the court said:

“It is an established and salutary principle that fraud is never to be presumed but must be proved by clear and convincing evidence.”

The United States Supreme Court has had occasion to consider this question and in the often cited decision in *Corona Cord Tire Co. v. Dovan Chemical Corp.*, (1928) 276 US 358, 72 L.ed. 610, held that evidence which leaves the proof of fraud in doubt may not properly be a basis for finding fraud. To the same effect are *Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Systems Co.*, (E.D. Pa. 1958) 169 F.Supp. 1, affirmed (3 Cir. 1959) 268 F.2d 395; *Edward Valves, Inc. v. Cameron Iron Works, Inc.*, (5 Cir. 1961) 286 F.2d 933 and *Armour and Company v. Wilson and Company*, (7 Cir. 1960) 274 F.2d 143.

It is equally well settled that good faith is a complete defense to any charge of fraud. This was recognized

in *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.*, (1965) 382 US 172, 15 L.ed.2d 247, 251, where the court said:

“By the same token, Food Machinery’s good faith would furnish a complete defense. This includes an honest mistake as to the effect of prior installation upon patentability—so-called ‘technical fraud’”.

Furthermore, the close relationship between the principles relating to malicious prosecution and to findings of “exceptional” cases under 35 USC 285 was pointed out by the court in *Hoge Warren Zimmerman Co. v. Nourse and Co.*, (6 Cir. 1961) 293 F.2d 779, 784, with such penetrating insight that we include a quotation of some length from that decision in the Appendix, Part 5.

Appellant’s Good Faith In Believing That The Riverside And Southwestern Uses Were Experimental And In Believing That The Effective Filing Date Of The Patent Claims Was Earlier Than These Uses Cannot Be Denied.

First, it would hardly appear necessary after all of the foregoing discussion to point out that the questions of whether the 1955 use of Riverside was a statutory bar and of whether the patent claims in suit were entitled to the filing date of the parent application involved highly complex issues of law and fact. Indeed, the complex nature of such questions is clearly acknowledged in *Huszar v. Cincinnati Chemical Works*, (6 Cir. 1949) 172 F.2d 6 and *Engineering and Development Laboratories v. Radio Corporation of America*, (2 Cir. 1946) 153 F.2d 523, respectively. Thus to the extent that the record reflects a certain amount of uncertainty on the part of appellant’s employees with regard to these questions, such uncertainty is entirely understandable and

lacking in the illegal motives which defendants so skillfully urged upon the trial court.

Once again, the Halstead affidavit (Ex. 2/V, pages 337-339) alone would appear to so irrefutably establish appellant's good faith as to make further comment unnecessary. If concealment was appellant's purpose, it is inconceivable that it would make a clear and unequivocal disclosure of that which it is charged with concealing. As held in *United States v. Cold Metal Process Co.*, (6 Cir. 1947) 164 F.2d 754, he who has made full disclosure to the Patent Office of the facts, even later in the prosecution of a patent application than in the present case, cannot be later charged with fraud predicated upon the concealment of those facts.

Further indication that the litigable nature of these questions was such that appellant was entitled to believe in good faith that it would prevail on them may be found in the fact that the Riverside use and the Southwestern use were before the trial court in defendants' motion for summary judgment which motion was denied (R. 1103) because:

"An issue is presented as to whether the sale of UNITAB bricks by Kaiser Aluminum to Riverside Cement Co. and their subsequent use by Riverside Cement Co. constitutes a sale and public use *or an experimental use*. . . .

"The application of the term 'basic bricks' (of substantial identical composition) as distinguished from 'bricks' to the issue of what matter, if any, was carried over from the original application is a mixed question of law and fact." (Emphasis added)

Our review of the record has revealed no evidence not placed before the court during the summary judg-

ment proceedings which could possibly be relied upon as being in any way significant, much less capable of meeting the burden of proof required to establish that appellant or any of its employees knew at the time the patent application, which issued as the patent in suit, was being prosecuted, or at any time thereafter, that the Riverside use or the Southwestern use was a statutory bar. Indeed, as we have explained at some length above, we believe and ask this Court to rule that the Riverside and Southwestern uses in 1955 were not statutory bars.

All else failing, we submit that the law requires a reversal of the lower court holding that purported statutory bars were fraudulently concealed from the Patent Office because appellant's good faith in believing that those uses were not statutory bars has been established and constitutes a complete defense. *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.*, (1965) 382 US 172, 15 L.ed.2d 247.

THE PETITION TO MAKE SPECIAL FILED IN APPELLANT'S PATENT APPLICATION IN- VOLVED NO FRAUD ON THE PATENT OFFICE

Findings 103-110 (R. 3740-3743) which, with the exception of a single term in Finding 107 (R. 3742), were adopted verbatim by the court appear to set forth two factors upon which the court based its holding that the petition to make special involved fraud. These factors are as follows:

1. The petition to make special involved a further concealment of the purported statutory bars arising from the 1955 uses by Southwestern and Riverside.

2. The petition to make special and the documents filed therewith purportedly misrepresented to the Patent Office that the Kaiser short-shimmed brick was

an outgrowth of negotiations between appellant and Kaiser.

As to the first of these, we have exhaustively discussed in the preceding sections of this brief the reasons why appellant cannot be accused of any fraud relating to the Riverside and Southwestern uses. Thus, it suffices to say here that, for the same reasons, there was no fraudulent concealment of statutory bars from the Patent Office in the petition to make special.

With regard to the purported misrepresentations to the Patent Office relating to the adoption and use by Kaiser of appellant's disclosure regarding short-shimmed kiln linings, we will now point out that the court's finding in this regard can be disposed of on the ground of immateriality alone.

There is no suggestion in either its memorandum of decision or the findings which it adopted that the trial court in any way considered the patent claims in suit not to cover the Anderson invention. These claims which covered the Anderson invention were also held by the court below to be infringed by Kaiser (R. 3707 and Finding of Fact No. 131, R. 3753). Thus, the only meaningful representation made in the petition to make special, that the Kaiser UNITAB product would involve infringement if a patent were granted, was found to be true, and it is utterly immaterial whether Kaiser's infringement resulted from appellant's disclosure or from another source.

In this regard, it must be kept in mind that the sole purpose of a petition to make special is to accelerate the prosecution of a patent application; the petition can in no way be considered to go to the merits of whether a patent should be granted. Stated differently, a petition to make special involves only the question of when a pat-

ent will issue, not whether it will issue. Thus, even if the petition was a collection of bold lies, it could not be made the basis of a finding of fraud because it could not be shown that but for the lies the patent would not have issued, i.e., the lies would not be material. As the Supreme Court said in *Corona Cord Tire Co. v. Dovan Chemical Corp.*, (1928) 276 US 358, 72 L.ed. 610:

“Hence the affidavits, though perhaps reckless, were not the basis for it or essentially material to its issue. The reasonable presumption of validity furnished by the grant of the patent therefor would not seem to be destroyed.”

Just recently, this principle was applied in *Corning Glass Works v. Anchor Hocking Glass Corp.*, (D. Del. 1966) 253 F.Supp.461, affirmed on this point (3 Cir. 1967) 374 F.2d 473. In *Corning*, the District Court said at 253 F.Supp. 469:*

In the present case, the representations in the petition to make special were by no means a collection of lies, but rather comprised a representation of potential infringement which was ultimately decided in appellant's favor by the trial court and a representation that the Kaiser UNITAB product derived from appellant's disclosure to Kaiser, the *bona fides* of which is dramatically attested to by the history of this lengthy and expensive litigation in which appellant has, albeit unsuccessfully thus far, made a determined effort to recover from Kaiser compensation for what it considers in good faith an unauthorized use of its confidential disclosure. Certainly, it cannot be said that one who has pursued

*“Not only must the defendant establish that an intentional misrepresentation was made to the patent examiner, but also defendant must show that the misrepresentation was material, i.e., that the patent would not have issued but for the fraud.”

his rights as vigorously as has appellant pursued its confidential disclosure case herein has demonstrated any lack of faith in the merits thereof.

Thus, we submit that Findings 106-110 (R. 3742-3743) cannot be considered material to the issue of fraud and that, if material, they would be clearly erroneous in view of appellant's firmly held good faith belief that Kaiser did indeed make wrongful use of information received from appellant to enable it to manufacture its UNITAB product. Were any further support needed for appellant's position in this regard, we need only point to the fact that the UNITAB article was held to infringe appellant's patent thereby establishing that appellant had "probable cause" for its belief that Kaiser made the appropriation complained of.

THE "UNEXPECTED RESULTS" ASPECT OF THE FRAUD ISSUE

The District Court held, in substance, that several "unexpected results" affidavits filed in the United States Patent Office were consciously false and misleading in that they deliberately misrepresented and concealed material facts and circumstances. There was a series of three affidavits executed by Rentsch (see Ex. 2/V, pp. 86-89, pp. 158-160, and pp. 162-173); setting forth Rentsch's opinion of an unexpected increase in production and in lining life with a kiln constructed predominantly in accordance with the teachings of the Anderson patent application (Ex. 2/V). In essence, the affidavits set forth (1) his opinion that there was an improved result, and (2) his opinion based on calculations that there was an unexpected increase in production thirty times or more greater (i.e., ninety or more barrels per

day) than the three barrels per day which would have been expected on the basis of calculated heat loss reduction (p. 172). For the convenience of the Court, these affidavits are reproduced in Part 6 of the Appendix to this brief.

Although the District Court concluded that there were misrepresentations as to unexpected results (Memo of Decision, p. 147, R. 3706), apparently the determination was limited solely to the allegations with respect to increase in production since both the Decision and Findings of Fact bearing on this element of the fraud issue are directed to a discussion of production (Memo of Decision, pp. 81-86, R. 3640-45; p. 146, R. 3705; Findings of Fact Nos. 111-113 and 126, R. 3743-45; 3752). The District Court did not affirmatively find that the increase in lining life set forth in the affidavits was a material misrepresentation.

We shall demonstrate that the evidence of record clearly establishes that there were in fact unexpected results, shown even by the evidence heavily relied upon below by appellees and shall demonstrate that there is no positive evidence that Rentsch believed the unexpected results as stated in his affidavits to be other than true.

We must stress that the District Court concluded (Memo of Decision, p. 113, R. 3672), albeit with respect to the confidential information issue, that appellant "failed to establish by a preponderance of the evidence that the increase in production or the increase in lining life claimed for the Laramie experience was attributable to the short shims used." We believe this conclusion found its way into the fraud issue. Although appellees bear the burden of establishing fraud, this conclusion is a strong indication that the trial court held the erroneous belief that this burden was to be borne by the appellant.

Furthermore, the court did find (Finding of Fact No. 45, R. 3719) that there was an increase in production in the Laramie experiment of nineteen barrels per day attributable to the shims. We submit that this increase, while less than that believed by Rentsch to have occurred, is clearly unexpected since the expected production increase was the three barrels per day testified to by appellees own expert Mr. Lyons (Tr. 11714). Still further, Kaiser advertisements asserted an increase in kiln efficiency to result from spaced shims (Ex. 73).

Much of the evidence upon which the District Court relied (apart from its disbelief of the testimony of Appellant's employees) are documentary exhibits. As this Court well knows, findings of fact based on non-oral evidence are not binding and are given but slight weight on appeal. *Equitable Life Assur. Soc. of U.S. v. Irelan*, (9 Cir. 1941) 123 F.2d 462; *Smith v. Royal Insurance Co.*, (9 Cir. 1942) 125 F.2d 222; *Pacific Portland Cement Co. v. Food Machinery & Chemical Corp.*, (9 Cir. 1949) 178 F.2d 541; *Stork Restaurant, Inc. v. Sahati*, (9 Cir. 1948) 166 F.2d 348; and *Kwikset Locks Inc. v. Hillgren*, (9 Cir. 1954) 210 F.2d 483, cert. den. (1954) 347 US 989, 74 S.Ct. 852, 98 L.ed. 1123.

When the District Court's Memo of Decision and Findings of Fact, and the documentary and oral testimony are carefully considered, it becomes apparent that the District Court's determination with respect to this issue was based principally upon its disbelief of the testimony of appellant's employees, particularly Rentsch, that they believed the representations made to the Patent Office regarding unexpected results to be entirely valid and accurate (Memo of Decision, pp. 126-128, R. 3685-87, see also Finding No. 130, R. 3753), as well as its conclusion that appellant did not during trial satisfy the district court that there was a substantial increase in produc-

tion attributable solely to a short shimmed kiln lining. However, we must stress that the court's general statement of disbelief of Rentsch's testimony that he made no knowing misrepresentation is not legally sufficient to establish that Rentsch believed that there was no significant increase in production. Disbelief of a witness is not proof that the opposite of his testimony is fact. *Moore v. Chesapeake & Ohio Railway Company*, (1951) 340 US 573, 95 L.ed. 547. We are well aware of the oft-quoted statement of Judge Learned Hand that the demeanor of a witness ". . . may satisfy the tribunal, not only that the witness' testimony is not true, but that the truth is the opposite of his story. . ." *Dyer v. MacDougall*, (2 Cir. 1952) 201 F.2d 265, at p. 269. However, Judge Hand made it clear that the "demeanor" evidence is only a part of the evidence to be considered and is "by no means all that we rely on in making up our minds about the truth of a question. . . ." He carefully stressed that, while it was true "in strict theory" that a party having the burden of proof might succeed in spite of the fact that all witnesses denied the truth of his position,

" . . . [A Judge] who has seen and heard of 'demeanor' evidence, may have been right or wrong in thinking that it gave rational support to a verdict; yet, since that evidence has disappeared, it will be impossible for an appellate court to say which he was. Thus, he would become the final arbiter in all cases where the evidence of witnesses present in court might be determinative."

We are confident that upon a review of the evidence, this Court will agree that Appellees have not met their burden of proof since there is no positive evidence of knowing misrepresentation.

The first (Ex. 2/V, pp. 86-89) of the affidavits in question described three types of kiln linings which had

been installed and the results from their use; Type A using alumina bricks without shims, Type B using basic brick with full shims, and Type C using basic brick and shims supported on the brick and spaced away from the kiln shell. The Patent Office Board of Appeals in discussing increase in production in its decision (Ex. 2/V, pp. 340-353) did not consider Rentsch's comparison between the full and short shimmed kiln linings (Types B and C) to be a meaningful comparison (p. 345) because in the short shimmed lining (Type C) the shims extended across joints between bricks. The Board of Appeals further noted (p. 345) that Rentsch's estimates of lining life were mere conclusions, with no factual information submitted to provide a basis for them. The Board of Appeals also commented on the third affidavit (Ex. 2/V, p. 345), and noted that Rentsch stated that the actual increase in production was more than thirty times as much as the expected increase of three barrels of cement per day. The Board then went on to review (pp. 345-346) Kaiser's advertising literature regarding its short shimmed brick which appeared on the back covers of two magazines one of which in October, 1958 (Ex. 2/V, p. 247) stated that a half-inch gap between the end of the shim and the shell acts as a heat buffer to reduce shell temperature for greater kiln efficiency, i.e., increased production, and the other of which in June 1958 (Ex. 2/V, p. 248) reported on substantially increased lining life. The Board recognized that the patent application claims in issue read on kilns lined with the Kaiser short shimmed brick, and it was the Board's opinion that the reported increase in lining life also should be a benefit of the claimed lining construction (note pp. 346-347). True, the Board was influenced by the showing of increased production and increased lining life, but the statement of its decision indicates that it concluded that the Rentsch affidavits had not made a meaningful comparison be-

tween two kiln linings and that it was the Kaiser advertisement which convinced the Board in this regard. Furthermore, it is clear from the Board's decision (Ex. 2/V, pp. 340-353) that their reversal of the Examiner and allowance of the claims in issue below was predicated upon several grounds, including the foregoing and its conclusion that two patents (Longacre and Griffith) which had been relied upon by the Examiner did not teach the Anderson invention (note pp. 342-344 and 346-347). Clearly, the Board did not solely rely upon a representation of an unexpected and surprising increase in *production* as the District Court appeared to conclude (Memo of Decision, p. 146, R. 3705; Finding of Fact No. 126, R. 3752). Thus, even if Rentsch had made a misrepresentation, it would not have been material to the issuance of the Anderson patent.

More important is Rentsch's belief in unexpected results asserted to the Patent Office. In this regard, the testimony of several Monolith employees shows that they had the opinion that a production increase of approximately 100 barrels per day was attributable to the spaced shim lining (Tr. 5223; Tr. 8526; Tr. 1823; Tr. 1973; Tr. 11466-11467; see also Ex. 1062, p. 1). There is no affirmative evidence that Rentsch was not sincere in his acceptance of this opinion, and in his opinion of unexpected results. Rentsch's affidavits identified him as a Monolith employee, and the improved results were stated as opinions. Monolith's records establish a substantial increase in production and indeed the Monolith documents upon which Appellees and the court below so heavily relied indicate at least a 19 barrel per day increase in production attributable to the spaced shim lining referred to in Rentsch's affidavits (see kiln production charts from Ex. 551; Ex. 679/FA, JY and AU). Even a 19 barrel per day increase represents a substantial and unexpected increase over the maximum

three barrel per day improvement to be expected as calculated by Appellees' own expert witness (Tr. 11714), which is in accord with the expected result calculated by Rentsch as set forth in his third affidavit (Ex. 2/V, p. 172). For the convenience of this Court, we have set forth in Part 7 of the Appendix a more extensive review of the evidence bearing on this aspect of the fraud issue.

There were differences other than shim length between the kiln having the short shimmed lining and those with which it was compared. Accordingly, Rentsch stated in his first affidavit that these differences existed and might affect the rate of production to a minor extent. In this regard, the court below merely concluded that the increase in production could not be attributed "solely" to the short shims (Memo of Decision, p. 86, R. 3645). The evidence is conflicting as to the precise effect on production as a result of each of the changes made in the kilns, but there is absolutely no positive evidence showing that Rentsch believed differently than as stated in his affidavits. Kaiser contended through the testimony of its employee, M. L. Mayberry, and a chart (Ex. G) prepared by him, that there was no increase in production (Tr. 11596) resulting from the January, 1954 installation of the short-shimmed lining in the Laramie kiln. The chart (Ex. G) is a graph illustrating production in average barrels of cement clinker per day from the Laramie kiln for each month from the beginning of 1953 to the end of 1956, and is based on simple averages (Tr. 11614). The chart as prepared illustrates a decrease in production immediately following the installation of the short-shimmed lining. However, Mayberry did not take into account deliberate "slow-downs" and "stoppages" in the operation of the kiln having no relation to the construction of the lining

itself, thereby resulting in apparent reduced average daily production on several occasions in the early months of 1954 (Tr. 11613). Rentsch had earlier testified at trial and explained that on a long term basis (Tr. 11154) slow-downs would have a relatively insignificant effect on average production figures (Tr. 11154-11155); whereas, if short periods of time are considered, inclusion of such slow-downs would render the averages erroneous and unrepresentative (Tr. 11154). This is, of course, inevitable because if abnormally low daily production figures are averaged with conventional daily figures over a short period of time, such as a month, the resulting average will be far out of proportion to actual operation so as to preclude a meaningful picture of normal operation. For example, in February, 1954 there were over ten days in which the kiln was run slowly during a 24 hour period resulting in reduced production for each such day and thus for the month (see Ex. 551). There was also a very significant effect on production in April 1954, because of the kiln being run slowly.

The court below appeared to recognize (Tr. 11613-11614) that operational conditions (e.g., kiln slowed down, kiln stopped, and so forth) were not taken into account in developing Ex. G. However, defendants' expert Lyons relied on this chart in contending that the changes other than lining structure were the major cause of increased production, but this testimony was based on assumption rather than any effort to determine the individual effect of each such change or of the lining structure (Tr. 11818), and he conceded that he had a negative attitude concerning the effect of the use of a short shimmed lining (Tr. 11822-11823). And even Lyons agreed that Ex. G. was a "simple minded" chart (Tr. 11800).

Clearly, the probative value of this chart is minimal because serious short term errors are introduced as a result of kiln slow downs and stoppages. We would not belabor this discussion of Ex. G were it not for the appearance that the District Court relied heavily upon this exhibit (Memo. of Decision, pp. 81-84, R. 3640-3643) to support its conclusion that production dropped in the first few months of 1954. A review of actual production records (see Ex. 551) of the type from which Ex. G was prepared establishes that there was an immediate apparent increase in production when the kiln was operating normally in the early months of 1954. Taking the record (kiln production charts from Ex. 551) for February 1954, for example, and omitting from consideration those days in which the kiln was run slowly as indicated on the record, it is found that the average daily production (computed as suggested by Mayberry [Tr. 11605-11606]) is 2600 barrels per day. This is an increase of more than one hundred barrels over the average monthly production in the last few months of 1953 (taken from Ex. G or computed the same way).

Furthermore, appellees have not met their burden of proof even as to materiality (Findings Nos. 126 and 128) as is clearly indicated by Finding of Fact No. 128 (R. 3752) which states in substance that if the truth of any of the matters set forth in the fraud findings had been known to the Board of Appeals, "it is reasonable to believe" that the Board would have affirmed the Examiner and the claims in suit would not have been issued. The Board's own statement of its decision renders the validity of this finding very doubtful, but in any event at least clear and convincing evidence that the Board would have affirmed is required by law for proving fraud; a reasonable belief is not enough.

In summary, the lack of positive evidence, much less clear and convincing evidence, that appellant made knowing misrepresentations to the Patent Office or that the representations made relating to unexpected results were material to the issuance of the patent in suit is such as to render clearly erroneous the trial court's reliance on these representations as basis for a finding of fraud.

THE WICKEN AFFIDAVIT ASPECT OF THE FRAUD ISSUE

With respect to this aspect of the fraud issue, the District Court's Memo of Decision (p. 147, R. 3706) is silent as to the basis for its conclusion that the affidavit of O. M. Wicken included false statements of novelty. Findings of Fact Nos. 114-120 and 127 (R. 3745-50; 3752) were subsequently adopted and state in substance that the Wicken affidavit filed in the Patent Office was grossly false and misleading in many respects. They also state that insertions and deletions were made in the affidavit, and because of false statements made by Rentsch to Wicken the latter was induced to sign the affidavit without carefully reading the same. This affidavit (Ex. 2/V, pp. 213-216) essentially alleged that deliberately spacing the metal shims from the shell of a rotary kiln was novel as of early 1955.

It was shown at the time of deposing Mr. Wicken in 1963 that he apparently had some knowledge of the use of spaced shims prior to early 1955 in magnesite, dolomite and lime recovery rotary kilns. In light of this, it was found (Finding of Fact No. 117, R. 3746) that allegations in the Wicken affidavit were false. Although his affidavit referred to cement kilns, it also referred at the same time to other related kilns and in this respect, and only in this respect, can his averment of novelty be questioned. Considering this affidavit in the context of

the Patent Office Board of Appeals Decision, which is replete with references to “cement” kilns, it is apparent that to the extent the Board may have given any weight (and this was not established) to the affidavit it could only have been in the context of “cement” kilns. There has been no affirmative showing that Wicken did not believe in the novelty of the concept of deliberate spacing shims in cement kiln linings in early 1955, nor was there any showing that Monolith did not believe in the novelty thereof.

Additionally, because an earlier affidavit (Ex. OX; not filed in the Patent Office) by Wicken was revised in order to obtain the most forceful affidavit consistent with Rentsch’s firm belief of novelty, it was found (Findings of Fact Nos. 118-119, R. 3749) that Wicken was misled and rushed into executing the revised affidavit which ultimately was filed in the Patent Office. However, Wicken stated, as we will discuss later, that he carefully reviewed the affidavit which was filed.

With the exception of Rentsch’s testimony practically all of the evidence bearing on this aspect of the fraud issue is in the form of deposition testimony entered into the trial transcript. Wicken’s testimony is in this form. The findings thus were based almost entirely on the District Court’s disbelief of Rentsch and on deposition testimony. Again, we must stress that the disbelief of Rentsch does not establish a contrary fact and that findings based on non-oral evidence are to be accorded but slight weight on appeal.

Wicken was an employee of Harbison-Walker Refractories Company and not an employee of Monolith. We recognize that this Court has hinted that a patent applicant may have to bear the burden of another’s fraud in some situations. *Dubil v. Rayford Camp and Co.*, (9

Cir. 1950) 184 F.2d 899. However, this cannot be done by building upon a first inference of inaccuracy a further inference of knowing misrepresentation. *Tucker v. Traylor Engineering and Manufacturing Co.*, (10 Cir. 1931) 48 F.2d 783. We submit that an inference that Rentsch knowingly committed a wrong with respect to the Wicken affidavit and that the Patent Office was in fact misled by this affidavit, cannot properly be drawn from an inference that Wicken's statements of novelty in his 1958 affidavit may have misled the Patent Office. The evidence must be at least clear and convincing, and we submit that the evidence is fatally defective with respect to knowledge on the part of Rentsch and as to materiality, and we firmly believe that Appellees have not met their burden of proof.

Turning to the events surrounding the filing of the Wicken affidavit, Rentsch testified that O'Brien and Mathis, patent counsel for Monolith, suggested it would be worthwhile to have affidavits as to the state of the art, and thought this grew out of comments from the Patent Examiner (Tr. 11205; Tr. 11207). An affidavit by Williams of Monolith was filed (Ex. 2/V, p. 146-149) commenting on the non-pertinency of Longacre Patent No. 2,230,142 and Griffith Patent No. 2,192,642, and stating his opinion as to the novelty of short shimmied kiln lining. Subsequently, it was learned that Freeman of Harbison-Walker apparently was of the same conviction as Williams and might be willing to sign a similar affidavit (Tr. 11218-219). A proposed draft was forwarded for Freeman's consideration (Ex. OH, see also Ex. OK). He forwarded the affidavit to Moore of Harbison-Walker (Ex. OL and OM), and Moore responded (Ex. OO) stating that Wicken could prepare a "forceful declaration" for Monolith. Subsequently, Moore sent an "initial" affidavit executed by Wicken (Ex.

1219/OX), and indicated that a revised or modified affidavit could be provided if desired. The affidavit was mailed to patent counsel Mathis in Washington (Ex. PA), but Mathis wrote to Rentsch suggesting some consideration be given to possible changes in the language (Ex. PC). Wicken and Rentsch conferred by telephone (see Exhibit PD), and Wicken signed a revised affidavit. These two affidavits are referred to herein as the "initial" affidavit and the "revised" or "filed" affidavit. For the convenience of this Court the entire contents of both affidavits are set forth side by side in Part 8 of the Appendix.

In his cover letter (Ex. PD) forwarding the revised affidavit to Wicken, Rentsch noted that they were pressed for time (this was because the patent application was under a special status as a result of granting the Petition to Make Special) and stated, "The affidavit has been revised to conform to Patent Office form and certain other paragraphs have been paraphrased over the original affidavit as I explained over the telephone." Wicken mailed the revised affidavit to Mathis (Ex. PH) noting that the same was a virtual copy of his earlier affidavit. The revised affidavit (Ex. 2/V, pp. 213-216) was filed in the Patent Office.

There was a significant change to comply with Patent Office form. As is apparent on the face of the "initial" affidavit (Ex. OX) the same did not include the usual Patent Office heading identifying the Serial Number, filing date, etc. of the Anderson patent application. Apparently, the principal paragraphs of these two affidavits with which the court below was concerned were paragraphs 5, 8 and 9 of the "initial" affidavit and similar paragraphs 4, 7 and 8 of the "filed" affidavit. It must be borne in mind that both of these affidavits were directed to a discussion of the teachings of the Longacre

and Griffith patents which the patent Examiner had relied upon in rejecting claims in the Anderson patent application. Irrespective of differences in wording, both affidavits acknowledged the merit of Anderson's invention over the prior art.

Considering now the evidence pertaining to these affidavits, there is a conflict in the testimony as to precisely what was the verbal exchange between Rentsch and Wicken when discussing changes in the final affidavit. However, Rentsch's letter to Wicken (Ex. PD) noted that revisions as to form had been made and that paragraphs had been paraphrased. Wicken testified that he read through both of these affidavits and thought the second one was a virtual copy of the first (Tr. 11993), but stated he was probably anticipating that the affidavit was pretty much the same as the first (Tr. 11993-994). Wicken acknowledged that Rentsch did not say the second affidavit was a virtual copy of the first (Tr. 12009), and Wicken also stated that he "paid pretty close attention to the whole document", i.e., the revised affidavit (Tr. 11994). He testified that he never knowingly signed something he believed not to be true as far as he knew (Tr. 12400-401).

With respect to Wicken's prior knowledge of spaced shims, he stated that he knew such had been proposed for exceptional installations (Tr. 12000) but did not know of specific installations in which shims had been withdrawn from the kiln shell an appreciable distance (Tr. 12000). After reviewing a memorandum (Ex. CG, Wicken Deposition Ex. B) at his deposition in 1963 referring to the use of short shims (in a magnesite kiln), he acknowledged that he did not remember the same when he signed his affidavit (Tr. 12001-002). This memorandum was a 1948 internal memorandum of Harbison-Walker. No specific installation was identified in the memo-

randum, nor was it clearly shown that it referred to a specific non-secret use. To the best of Wicken's knowledge Monolith was not apprised of any prior Harbison-Walker practices with regard to spaced shims at Cape May, New Jersey (magnesite and dolomite kilns) or at Saltville, Virginia (lime recovery kilns) (Tr. 12401-402). Thus, whether or not Wicken had knowledge of particular installations of short shims in kilns other than cement kilns, there is no evidence that any such knowledge was communicated by him to Rentsch. For the convenience of the Court, we have set forth in Part 9 of the Appendix a more comprehensive discussion of the testimony of Rentsch and Wicken concerning these affidavits.

Defendants also attempted to establish that Harbison-Walker hoped to obtain brick orders from Monolith in exchange for executing the Wicken affidavit. However, Freeman testified that neither Williams nor Potter of Monolith ever said or implied that a brick order might be exchanged for cooperation with regard to the patent application (Tr. 12474). Rentsch stated that he knew of no basis upon which Wicken might expect some business from Monolith in return for supplying an affidavit (Tr. 11243). Thus, there is no affirmative evidence showing any offer by Monolith of brick orders to Wicken or to Harbison-Walker.

We further submit that the "filed" affidavit was not material to the issuance of the patent. It is apparent that the Patent Examiner gave no weight to this affidavit (Ex. 2/V, p. 224 and p. 317). The Patent Office Board of Appeals in its Decision (Ex. 2/V, pp. 340-353) made no specific reference to the Wicken affidavit, although it did note that all of the affidavits submitted had been considered (p. 347) after it had concluded (Ex. 2/V, p. 343) that the Longacre and Griffith patents did not teach or make obvious the claimed invention. It must

be remembered that this affidavit commented that the Longacre and Griffith patents did not show the concept of providing a rotary kiln lining using shims deliberately spaced from the shell of a rotary kiln. This is particularly significant when considering the context of the Decision of the Board of Appeals. It is readily apparent that even though the principal claims in issue before the Board of Appeals did not specifically refer to a rotary "cement" kiln, the Board in its determination of novelty implicitly considered the claims to relate to a cement kiln since throughout its Decision (pp. 340-353) it was concerned with practices in cement kilns. For example, the Board described the specification of the patent application as referring to rotary kilns used in the "cement" industry (p. 341). In discussing the Longacre patent (p. 344), the Board disposed of Longacre's mention that short shims could be used except in higher temperature installations on the basis that the burning zone temperature in a "cement" kiln is approximately 2700°F (which the Board concluded was obviously a higher temperature installation). It referred to Rentsch's study of production of a rotary "cement" kiln (p. 344). It referred to the Kaiser advertisement (p. 345-346) submitted (at pp. 247-248) with applicant's brief which also pertained to refractories for the "cement" industry. Thus, to the extent that the Board may have given any weight to the Wicken affidavit, it is abundantly clear that it must have been only in the context of novelty in a rotary "cement" kiln lining. With this in mind it should be stressed that Wicken did not know of pre-1955 uses of short shims in cement kiln linings and his affidavit was free from any inaccuracy, even inadvertent, in this regard.

In summary, we believe that it was error to find that the evidence established that Rentsch misled Wicken

with respect to the contents of the revised affidavit. None of the evidence supports a finding that Rentsch did not fully believe in the novelty of deliberate spacing and thus in the accuracy of the affidavit nor is there clear and convincing evidence of any wrongful willfulness on the part of Wicken or Rentsch. Additionally, there is no evidence that, but for this affidavit, the Patent Office would not have issued the Anderson patent. Even assuming that Wicken in 1963 concluded that there was a question in his mind as to the novelty of deliberate spacing of shims in kilns other than cement kilns in 1955, at best his knowledge was of the exceptional installations which were not positively identified in the 1948 memo (Ex. CG) and which could well have been secret. The state of mind of Wicken in 1963 cannot be decisive.

We submit that the evidence of record does not clearly and convincingly establish that the Wicken affidavit was false, misleading or material to the issuance of the Anderson patent, nor establish any knowledge of wrongdoing on the part of Rentsch or any other employee or agent of Appellant. The evidence does not establish fraud, and the court's conclusion that the Wicken affair was one element of a four part fraudulent plan to mislead the Patent Office was clearly erroneous.

**EVEN WERE THE PATENT SIDE OF THIS CASE
EXCEPTIONAL, THE AMOUNT AWARDED BY
THE COURT BELOW IS NOT "REASONABLE"**

We submit that the court below committed error in awarding defendants the enormous amount of \$280,000 of attorneys fees because this award is not "reasonable"*

*Taking this total of 100 days in court, add 100 days for preparation, i.e., 200 days, the award is \$1400.00 per day. *Dubil* establishes \$800.00 per day as excessive, i.e., *unreasonable*.

within the meaning of 35 USC 285. We believe it to be clear that this award is not reasonable because:

1. The award made is 600% more than the largest amount ever awarded to a prevailing defendant in a patent case of which we are aware and, as such, is contrary to firmly established policy considerations.

2. If either the generalized approach approved by this Court in *Dubil v. Rayford Camp & Co.* (9 Cir. 1950) 184 F.2d 899, or an analytical method is used to assess a reasonable award, the maximum amount which could properly be awarded is \$37,000.

Application Of A Formula Approved By This Court In An Earlier Case Would Limit Any "Reasonable" Award To A Maximum Amount Of \$37,000.

This Court pronounced a generalized formula for fixing a reasonable amount on an award of attorney fees under 35 USC 285 in *Dubil v. Rayford Camp & Co.* (9 Cir. 1950) 184 F.2d 899. In that case it was indicated that a possible basis for award, although over-generous, would be to allot one day of preparation for each day of trial, and further indicated that an allowance of \$800 per day would be so excessive as to be unsustainable. In the present case, review of the pretrial proceedings indicates that an allotment of 3 of the 11 days therein spent on the patent side would be more than ample. Introduction by plaintiff of its evidence of patent conception, reduction to practice and patent infringement required approximately 158 pages of transcript (Tr. 931-72, 1123-48, 1157-81, 1323-31, 1767-69, 1940-60, 5273-5302, 5330-39, 5404). Allotting 100 pages per day of trial, it is clear that plaintiff took no more than 2 days to present its patent case. Finally, review of the transcript demonstrates that the remainder of the patent case, both as

respects plaintiff's claims and defendant's defenses took a further 32 days (all or parts of Tr. Vols. 41, 42, 43, 61, 62, 64-69, 72-79, 84-94 and 96-100).

We thus find that there were 37 patent trial days. Adding to those 37 days another 37 days for preparation, which this Court stated to be over-generous in *Dubil*, and multiplying the resulting 74 days by the realistic figure of \$500 per day rather than the \$800 per day which this Court stated to be unsustainable in *Dubil*, the amount reached is \$37,000.*

There can, of course, be no doubt that only those trial days applicable to the patent side of the case can be considered in assessing any award since, as we have previously pointed out, *Aeration Processes, Inc. v. Kidde & Co., Inc.* (2 Cir. 1949) 177 F.2d 772 and *Turchan v. Cincinnati Milling Mach. Co.*, (6 Cir. 1953) 208 F.2d 228, and other decisions make it clear that apportionment so as to restrict the award to the patent side of the case is required.

Furthermore, the more analytical approach for deriving the maximum allowable award set forth in detail in plaintiff's Memo re Reasonable Attorneys Fees (R. 3910-42) demonstrates that the information provided by defendants when viewed in light of the applicable authorities constitutes a showing of no more than 1225 hours of attorney time can be attributed to the patent side of the case. Thus, since defendants have represented that they consider \$30 per hour to be a reasonable billing rate (R. 3775) and, indeed, have represented that much of the work done by their lawyers was actually at this rate (R. 4525-27), this analytical method sets the maximum amount of the award at \$36,750 which coin-

*Taking 74 days — the \$280,000 award is at the rate of \$3783.+ per day.

cides remarkably well with the more generalized *Dubil* approach.

Thus, if any award at all were appropriate in this case, which we by no means concede, two independent and judicially approved methods of assessing the amount thereof establish \$37,000 as the maximum permissible award, the basis for which in either case could be clearly stated in accordance with the *Dubil* doctrine. In view of this and of the fact that the award made by the court below was 7 times as much as the largest amount previously awarded to a prevailing defendant in a patent case, the conclusion is inescapable that the trial court would have committed reversible error in making an award of \$280,000, even if it had clearly stated the basis for this award, which it did not. We are confident that this Court will not let stand an award which so dramatically conflicts with applicable facts, law and policy.

Finally, we must point out that the award made by the court below was in error because it included services rendered by non-lawyers,* did not recognize counter-vailing equities in appellant's favor such as the lack of success of defendants' motion for summary judgment on the patent issue, *Talon, Inc. v. Union Slide Fastener, Inc.*, (9 Cir. 1959) 266 F.2d 731, *Dixie Cup Co. v. Paper Container Mfg. Co.*, (7 Cir. 1948) 169 F.2d 645, the pro-

*Finding of Fact No. 137 (R. 3757) which states that the "legal services" of Kaiser's "attorneys" comprised more than 13,559 man-hours leaves no doubt that services of non-lawyers were included since deduction of only the 1205 hours of Mr. Barden's services performed before he was admitted to the bar and the 1207 hours of services performed by Kaiser's non-lawyer patent agent, Miss Lloyd (see Exhibit B to Geriak Affidavit, R. 4507-09) from defendant's original demand for compensation for 15,000 hours of services would result in 12,588 hours, thereby establishing that the court included almost 1000 hours of these non-lawyer services alone.

longation caused by defendants* or lack of patent matter familiarity on the part of the Thelen firm, *Orgel v. Clarke Boardman Co.*, (2 Cir. 1962) 301 F.2d 119.

With regard to the foregoing, we believe it appropriate to point out that the prolongation by defendants which we have pointed out emphasizes the wisdom of the American policy of discouraging attorney fee awards to the prevailing party. In their lust for such an award, defendants prolonged the case and then were able to convince the trial court that appellant was responsible for such prolongation so as to make it available as a basis for an attorney fee award under the patent statute. Only chaos in judicial administration would result if every time a party in a patent case began to feel that the case would be decided in its favor, such party undertook to make the case "exceptional" by causing as much prolongation as possible with a view toward attaching culpability therefor to the losing party. Failure by this Court to set aside the award in this case cannot help but to encourage such an unfortunate practice. The district court invited defendant to move to try the patent issue separately. If this had been done that issue would have been disposed of in not less than the time taken when, as here, confused with the other issues. Defendant elected to forego that suggestion. Defendant could upon

*For example, defendants' counsel insisted on reading numerous depositions into the record even after counsel for appellant filed a memorandum suggesting that depositions be offered in evidence and not read into the record *in extenso* (R. 2849-52), after appellant's offer to stipulate the entire depositions into the record (Tr. 5970-72, 6096, 6131, 6188 and 6807), and after the court indicated that such reading of depositions was unnecessary and that the court could do this in a small fraction of the time (Tr. 5971 and 6094-95). In this regard, the trial court also observed that a live witness usually goes faster and makes more sense than the reading of a deposition by counsel (Tr. 9144). In spite of all this, numerous trial days were consumed by defendants' counsel in reading these depositions into the record.

such separate trial within the law only have been awarded attorneys fees with respect to such separately triable issue, i.e., patent issue. By its election to maintain the issues combined, defendant cannot reap compensation for its election.

Extensive though the foregoing discussion relating to the many issues raised by the attorney fee award is, we have not yet reached the issues relating to the merits of this case. The remainder of this brief is directed to the merits of appellant's claim for wrongful appropriation of confidential information. As previously noted, we have not brought the issue of patent validity to this Court for review.

Policy Considerations Require A Strict And Conservative Application of 35 USC 285. This Is Particularly True Where Attorney Fees Are Assessed Against A Losing Plaintiff.

We have previously traced the development of that policy which, from the beginnings of this Republic, has evolved the general rule that the granting of attorneys fees to the prevailing party shall not be encouraged but rather discouraged, and since 35 USC 285 thus derogates from the general rule of the land, it must be strictly construed. This, we submit, is the clear meaning of the decisions in *Farmer v. Arabian American Oil Company*, (1964) 379 US 227, 13 L.ed.2d 248 and *Fleischman Distilling Corp. v. Maier Brewing Co.*, (1967) 386 US 714, 18 L.ed.2d 475.

We have also previously pointed out that there has long been judicial recognition that this policy should be applied particularly vigorously where, as here, it is the defendants who have prevailed rather than the plaintiff since the elements of property loss to a prevailing plain-

tiff do not apply to a prevailing defendant. Thus, it is hardly surprising that a diligent search of the cases reveals that the largest reported amount which has ever been awarded to a prevailing defendant in a patent case as attorney fees is \$40,000 awarded in *Young v. General Electric Co.*, (N.D. Ill. 1951) 96 F.Supp. 109. In *Young*, the court made it clear that the amount awarded was less than that actually expended by the prevailing defendant. Very recently in *Davis v. E. I. du Pont de Nemours & Co.*, (S.D. N.Y. 1966) 151 USPQ 36, a copyright case involving attorneys fees awarded under the copyright statute, which statute compares closely to Section 285 of Title 35, the court at page 39 observed:

“If the courts have indeed applied a more restrictive rule when defendants prevail than when plaintiffs succeed, a possible explanation may be that an award to a defendant is somewhat *more* ‘at variance with the usual practice in litigation before our courts . . .’ See *Orgel v. Clark Boardman Co.*, 301 F.2d at 122. One aim of our system of jurisprudence is to prevent costs from becoming so burdensome that litigants with what they believe to be meritorious claims are discouraged from bringing suit. See *Farmer v. Arabian American Oil Company*, 379 US 227, 235 (1964). Awarding a counsel fee to a plaintiff against whom some injury has been done would seem less out of harmony with this policy than an award to a winning defendant. Be that as it may, I will decide this application not on the basis of whether the award is sought by a successful plaintiff, rather than a successful defendant, but upon other general principles found in the decisions.”

We ask that the Court note particularly the citation of *Farmer* in *Davis* and we are confident that this Court

will recognize that the merits of the *Farmer* policy are as applicable to the present case as they were in *Maier*. In addition, we have here the huge Kaiser conglomerate on the one hand and a relatively small cement company on the other. Yet in spite of the policy considerations which we have discussed at length, an award of \$280,000 in attorney fees has been made, this award being 600% more than the largest previously reported award of this type in *Young*, and at the staggering rate of \$2800.00 per day of total court time on all issues.

The District Court was by no means helped in its consideration of the award question by defendants' demand for and insistence upon substantially full reimbursement for all of the monies paid to lawyers and non-lawyers alike in connection with the defense in this case, such reimbursement being represented by defendants to be the enormous amount of \$450,000. Assuming this monumental amount to have been paid, it is but the result of the fact that teams of lawyers have been retained throughout this litigation by Kaiser as is its right and as is the practice, quite regardless of the damage exposure present in a given case, of the formidable business institutions of our time. We have no quarrel with this big business approach to litigation. Our only quarrel is with the consequences of any principle that might be judicially established whereby the smaller company or individual having the temerity to sue such an institution must look forward in the event of losing to being substituted for the institution as the employer of all those counsel whose services he could not and would not have retained on his own behalf. From the plaintiff's standpoint, patent cases are never free from doubt. Moreover, they are expensive. But were reimbursement to the large corporation for its attorneys fees to be made a precedent here, as defendants would have it, precisely that result which

the Supreme Court will not countenance would be effected, and, in fact, the very constitutional purpose of the patent grant would be subverted. Certainly, there would be scant incentive to invent, much less to disclose such invention in a patent, for the individual or company of modest means if the attempt to enforce any such patent were likely to result in being charged for the services of the lawyers of a huge conglomerate such as Kaiser, and it should not be overlooked that defendants here have indeed been found to have infringed the patent in suit (Finding of Fact No. 131, R. 3753).

Unfortunately, the court below did not state the basis of the attorney fee award with sufficient clarity to permit us to characterize it in a manner which is free from doubt, but it would appear that in the statement appearing at (R. 4669):

“... when the original complaint was filed it contained no patent cause of action and it was not filed in bad faith, but there *came a time* when the principles which led to the award of attorneys fees in the cited cases applied to the further maintenance of this action.” (Emphasis added)

that the trial judge simply chose an unspecified point in time and, giving some unspecified consideration to the matter of duplication of effort, granted substantial reimbursement for all services subsequent to that point in time, whenever it was. We submit that this approach clashes with *Dubil* and firmly ingrained American policy and is reversible error.

CONFIDENTIAL INFORMATION

Introduction

The confidential information issue presents a simple fact situation which we believe to compel reversal of the

trial court's holding that Monolith's confidential information was not misappropriated by Kaiser.

Briefly, the facts which cannot be controverted are as follows. In August of 1953, Monolith disclosed to Kaiser the concept of rotary kilns lined with conventional basic brick having short shims to increase cement production. This August, 1953 disclosure conveyed to Kaiser at least one specific embodiment of this concept, i.e. that involving the use of longitudinal shims. Prior to the disclosure, Kaiser had never seriously considered the use of short-shimmed linings and was unaware of the benefits derived therefrom. The flow of information to Kaiser continued and by March of 1954 Monolith had reported to Kaiser that field tests indicated kiln production had been increased 100 barrels per day by virtue of installation of a lining embodying short shims of arcuate type. Within three or four months after being informed of the increased production due to lining of the kiln in this manner, Kaiser had begun to evidence its interest in manufacturing brick with short shims and soon thereafter proposed to customer cement companies that linings composed of bricks employing short shims be field tested. Some of these companies agreed to perform field tests and Kaiser was able to sell them their short-shimmed brick for this purpose. Such brick was eventually sold under the trademark "UNITAB". The "UNITAB" brick became a commercial success and was of great benefit to Kaiser. Plaintiff did not share in this benefit.

The basis for recovery for misappropriation of confidential information is "that equity will not permit one to unjustly enrich himself at the expense of another". *Engelhard Industries, Inc. v. Research Instrumental Corp.*, (9 Cir. 1963) 324 F.2d 347, 352. The court below set forth the elements of this action based upon mis-

appropriation of confidential information as follows in its memo of decision (p. 8, R. 3567) :

- “(1) that there was a disclosure in confidence;
- (2) that the disclosure was of something novel; and
- (3) that the defendant appropriated the information disclosed to its own use.”

Appellant agrees with this statement of this cause of action although, as will be shown later, we do not agree with the general statement of the requirement of “Novelty” (2). As we will show from the Restatement of Torts § 757, this requirement is novelty to the person receiving the disclosure and commercial benefit to the discloser over his competitors.

Broadly, the trial court erred in holding that short shimming as used in the “UNITAB” brick was not disclosed to Kaiser by Monolith and that what was disclosed was not novel. We will first describe the nature of these errors and will then consider the nature of the disclosure, the confidential relation, the novelty issue, and finally Kaiser’s appropriation.

The Errors

We submit that the majority of the findings of fact relating to the misappropriation of confidential information are not binding on this Court because the finding regarding the nature of the information disclosed to Kaiser by appellant is clearly erroneous and because of the court’s misconstruction of the law as to the degree of novelty required for a protectible disclosure. Since these two basic errors are reflected in so many of the findings regarding the confidential information issue, we will, rather than individually attack the many findings on this

issue which are in error, point out how these two fundamental errors vitiate the remaining relevant findings.

The Information Disclosed By Appellant To Kaiser

The court erred in defining the information disclosed by Kaiser to Monolith. In essence, the court held that Monolith's disclosure was vague and that it related only to the concept of lining a rotary kiln with arcuate short shims (Findings of Fact No. 28 and 29, R. 3714-15). It will be shown that even the contemporaneous documents prepared by Kaiser, which the court found to be completely reliable (Finding of Fact No. 32, R. 3716), establish that the use of kiln linings employing short shims on basic brick to increase production was clearly disclosed by appellant to Kaiser and that appellant put Kaiser in possession of knowledge of the two specific embodiments distinguished by the court below, i.e., linings employing longitudinal and arcuate short shims.

It is to be emphasized that the decision of the trial court is based on irreconcilably inconsistent holdings that appellant made a confidential disclosure to Kaiser but that this disclosure was not a confidential disclosure of kiln linings composed of short-shimmed brick even though the *only* relevant disclosures made by appellant to Kaiser prior to the commencement of Kaiser's efforts to market short-shimmed brick were indisputably directed to such linings. We will demonstrate herein that this inconsistency cannot be other than reversible error.

Appellant's Disclosure Had The Novelty Required By Law

The second major error was the holding that the Monolith disclosure was not novel (Finding 33, R. 3716). The evidence is clear that lining of cement kilns with short-

shimmed basic brick was novel, was not previously considered by Kaiser and was not suggested by the prior art. Even if the prior art was such that Kaiser might have used it to independently develop the information disclosed by Monolith, Kaiser did not so use the prior art and thus the novelty requirement was satisfied, *Futurecraft Corp. v. Clary Corp.*, (Dist.Ct.App. 1962) 205 Cal.App.2d 279, 23 Cal.Rptr. 198.

This error together with the court's clearly erroneous finding as to the nature of the information disclosed by appellant to Kaiser give rise to two important derivative errors involving undue limitation by the court of the confidential relationship between the parties and the holding that Kaiser did not appropriate Monolith's information.

The Court Unduly Limited The Confidential Relationship Between Appellant And Kaiser

The court did find that a confidential relationship existed between the parties. However, because of the two aforementioned fundamental errors, the court erred in holding that the confidential relationship was limited to one specific embodiment of the disclosure of the concept of lining a rotary kiln with basic brick having short shims for increased production, i.e., the arcuate form of short shim. Since both the longitudinal short shim used by Kaiser in its "UNITAB" brick and the arcuate short shim were disclosed as part of the above basic concept, at the same time and under the same circumstances, it is clear that the confidential relationship applied to both. The court's failure to find a confidential relationship with regard to the longitudinal short shim embodiment was based upon a clearly erroneous conception of the nature of the information disclosed and a misconception of the law relating to the degree of novelty required

for protection. Thus, there is not a separate error in the finding that a confidential relationship existed only as to the circular shim, but rather a perpetuation of the two basic errors described in the immediately preceding sections of this brief. We believe that, in this, the trial court was erroneously influenced by the irrelevant fact that appellant ultimately settled on commercial use of linings employing arcuate short shims whereas Kaiser's customers ultimately settled on commercial use of linings employing longitudinal short shims.

Kaiser's Misappropriation

The court's error in holding that the Monolith disclosure was not appropriated by Kaiser was again caused by the first two errors. Had the court found that the disclosure was concrete and satisfied the novelty requirement, a holding of misappropriation would have necessarily followed as evidenced by the fact that Kaiser was held to have infringed appellant's patent. The finding of no appropriation was merely a holding that there was nothing to appropriate in the absence of a concrete and novel disclosure. No other basis for the finding exists and thus there is no independent support for the finding.

Having briefly sketched the nature of the foregoing errors, we will now examine each of them and the significance thereof in some detail.

THE MONOLITH DISCLOSURE TO KAISER OF KILNS LINED WITH SHORT SHIMMED BRICK

The concept of lining a rotary kiln with conventional basic brick having short shims to increase cement kiln production was first disclosed to Kaiser as a proposal based upon extensive experience with conventional shims and basic brick in cement kilns. Later, more details re-

garding short-shimmed linings were disclosed and finally, an actual experimental lining using short shims with basic brick and the attendant increase in production resulting from the use of such a lining were disclosed to Kaiser, all prior to June, 1954.

Monolith's Conception Of A Short-Shimmed Lining

The undisputed evidence establishes that the concept of a kiln lined with short-shimmed conventional basic brick was independently developed by Anderson, an employee of Monolith (Anderson Deposition, Vol. I, p. 11, admitted in evidence, Tr. 1107; Tr. 1141). Anderson's short shimming procedure was discussed with Allen Johnson of Monolith and Johnson reported in his letter of August 23, 1953 to Bert Oberg of Monolith (Ex. 666/CZ), that it was Anderson's opinion that the heat transferred through the Kaiser Permanente basic brick used at the time by Monolith might contribute to a kiln production loss of 100 or more barrels of cement a day as compared to alumina brick. Johnson, in his report, went on to state:

“It is his [Anderson's] suggestion that a Permanente lining be installed leaving the steel shim 2” from the kiln shell which may cut down some of the radiation. It is my opinion that we should try this. It may cut down the radiate [sic] heat, and should not affect the life of a lining even if it does not have the desired effect.”

The First Disclosure To Kaiser: The Johnson-Putnam Telephone Call In 1953

The first Monolith disclosure of the use of rotary cement kiln linings having short shims to improve production was made to Kaiser on August 27, 1953 when

Allen Johnson of Monolith telephoned Jack T. Putnam of Kaiser. The substance of this conversation is contained in a memo written by Putnam (Ex. 106/DA, Appendix, Part 10) which is set forth in part below:

"The Plant Superintendent, Hank Anderson, according to Alan [sic] Johnson, is becoming concerned over the loss in production caused by the additional heat loss due to the increased thermal conductivity above a 70% alumina brick. He contends that he is losing between 100 and 200 barrels of clinker per day as a result of this heat loss. *This is the first time that we have had heat loss interpreted in terms of lost production.*" (Emphasis added.)

* * * *

"A second approach to alleviating this heat loss condition was suggested by them. They feel that, quite possibly, a good proportion of the heat is transmitted from the hot face to the cold face by the steel shims used. *They thought that, perhaps, this could be corrected by leaving two inches between the end of the steel shim and the shell.* It is conceivable that this might help, but I, for one, cannot understand how they could install their brick correctly with this gap at the back end of the brick. I can visualize all sorts of things going wrong. Any expression of how to correct or assist in the correction of this particular problem will be appreciated." (Emphasis added)

Despite this memo from the Kaiser files, the court refused to believe Johnson's testimony that he had disclosed spacing of conventional shims away from the kiln shell when lining a kiln with Kaiser basic brick (Tr. 978; Tr. 8476). Furthermore, there is nothing in this memo

to support the court's disbelief of Johnson's testimony that he disclosed the expedient of supporting the shims on the Kaiser brick (Tr. 981; Tr. 8393; Tr. 8476) to Putnam.

Finding of Fact No. 32 (R. 3716) indicates that the above memo is in conflict with the Johnson testimony, but we see no conflict. There is no controversy over the general purpose of the telephone conversation; it was to discuss a conventional Kaiser basic brick lining which had been installed at the Monolith, Laramie plant (Memo of Decision, p. 44, R. 3603). In the first sentence of the portion of the Putnam memo quoted above, it was indicated that there was some concern that the use of the Kaiser conventional basic brick lining resulted in a loss of production as compared with the alumina brick linings which had previously been used. As indicated in the third sentence, that was the *first time* that loss of heat resulting from the use of the basic brick had been interpreted in terms of lost production. The court below indicated in its Memo of Decision (p. 48, R. 3607) that the expression of heat loss in terms of production is not alone a trade secret. However, no one integrated production and heat loss prior to Monolith's disclosure. The totality of the disclosure, short-shimming the lining to achieve increased production, does constitute protectible information, a trade secret.

The second paragraph of the memo quoted above indicates that the heat loss, and as a result the production loss, could be alleviated by leaving two inches between the end of the steel shim and the shell. As previously established, the entire discussion related to the conventional Kaiser basic brick. It was conventional practice to use a longitudinal steel shim, with this basic brick, that extended from the hot face to the shell (Finding of Fact No. 16, R. 3712). Thus, Putnam's memo can only

mean that Johnson had disclosed the concept of lining a rotary kiln with basic bricks having short shims and that the specific embodiment so disclosed was to use the Kaiser basic brick with a longitudinal shim conventional in all respects except that the shim was to be short and held away from the shell of the kiln. The Putnam memo is indeed in accord with Johnson's testimony regarding the telephone conversation and establishes that he made a concrete disclosure of the generic concept of a rotary kiln lined with short-shimmed brick and the specific embodiment thereof involving the use of longitudinal short shims. Johnson recalled that arcuate shims were also discussed (Tr. 978-979; Tr. 8381-82), but the Putnam memo is silent in this regard.

In answer to the Putnam memo, Davis of Kaiser wrote a reply memo dated September 10, 1953 (Ex. 107/DB, Appendix, Part 10) stating:

"The idea of using a space between the cold end of the steel plate and the shell has been raised before. I believe this might be *accomplished fairly simply by bending over a one or two inch tab on our regular plate for this job*. If they would like to try it, we would furnish those special plates at no extra charge, *for the experiment*." (Emphasis added)

Any possible doubt as to whether the Putnam memo establishes the clarity and concreteness of the Johnson disclosure is completely dispelled by the fact that this Davis memo establishes that Davis immediately understood what was meant by providing a space between the kiln shell and the shim of a Kaiser basic brick. Furthermore, it was at once clear to Davis that conventional Kaiser basic brick employing a full length longitudinal shim could be modified merely by bending the shim into an "L" shape in order to hold it on the hot face spaced

away from the cold face. This is exactly the form of short shimming employed by Kaiser in its "UNITAB" brick. Thus, as a result of the Johnson telephone conversation, Kaiser was fully in possession of the basic concept and the specific details necessary for building a rotary kiln using Kaiser conventional basic brick and longitudinal but shortened shims.

The court below apparently was convinced that the disclosure related only to arcuate shims because only arcuate shims were actually manufactured and installed in the Monolith experimental lining. However, the law does not require that confidential information be actually placed in physical form in order for it to be protected. Rather, it need only be expressed in concrete terms such that it can be put into practice and the court indicated that, given a disclosure of the concept of a short shimmed lining, the actual physical means for providing a short longitudinal shim readily occurred to those knowledgeable in the art of cement kilns (Memo of Decision, p. 55, R. 3614). That a disclosed idea need not be reduced by the discloser to tangible form for there to be protection under the law was clearly explained in the well reasoned opinion in *Jones v. Ulrich*, (Ill. App. Ct. 1950) 342 Ill. App. 16, 95 N.E.2d 113, 87 USPQ 331 (Appendix, Part 11).

Subsequent Monolith Disclosures In 1954

The Monolith disclosure did not end with the Johnson phone call. For at least one year thereafter, there was a continual flow of information from Monolith to Kaiser on the subject of forming a kiln in the manner disclosed by Johnson. The Johnson phone call was a full and concrete disclosure and its value was verified by the experimental lining which was tested under production condi-

tions in the Laramie kiln in 1954. The results were reported by Palmer Ford of Kaiser in his Call Report of March 3, 1954 (Ex. 114/DM, Appendix, Part 10). Ford reported that the short-shimmed lining installed in January, 1954 at Laramie had resulted in an increased production as follows:

“Johnson said that the short steel shim installation at Monolith, Laramie, appears to have increased clinker production 100 bbls. per day.”

Although the court has characterized the information given by Monolith to Kaiser regarding the 1954 Laramie lining as vague, conflicting and in some respects false (Finding of Fact No. 28, R. 3714), there is no substantial evidence to support this characterization as is clear from the nature of those disclosures which are set forth in some detail in Part 12 of the Appendix. This evidence establishes that Ford of Kaiser was informed of Monolith's experimental Laramie kiln as well as the results of this experiment, that Kaiser recognized that spacing of the shim from the kiln shell was the fundamentally important feature of longitudinal and arcuate short shims, that Kaiser appropriated the Monolith disclosure and that this disclosure had value.

With regard to the latter, the evidence of value and Kaiser's commercial benefit from the short-shimmed lining concept would render clearly erroneous any finding that the Monolith concept does not have value. In the analogous situation in patent law, an infringer is estopped to argue that the infringing article is inoperative, *Dunkley Co. v. Cent. Calif. Canneries*, (9 Cir. 1925) 7 F.2d 972, 976-77; *Kansas City Southern Ry. Co. v. Silica Products Co.*, (8 Cir. 1931) 48 F.2d 503, 505, cert. denied, 284 US 626, 76 L.ed. 533. In the present case, even if Kaiser were not estopped, there is simply no evidence

permitting the inference that the Monolith disclosure had no value.

Thus, the attempt of the court below to bottom a conclusion that Monolith did not “disclose something” to Kaiser on the proposition and that which was disclosed had no value (R. 3669-79) was contrary to all of the evidence and clearly erroneous.

MONOLITH'S DISCLOSURE OF SHORT-SHIMMED KILN LININGS TO KAISER WAS MADE IN CONFIDENCE

We have demonstrated in the foregoing section of this brief that there was a concrete disclosure of information of value to Kaiser by Monolith which conveyed working knowledge of the concept of rotary kiln linings employing short-shimmed brick. Having established that the evidence permits no conclusion other than that such a disclosure was made, we must now address ourselves to the question of whether the evidence requires the conclusion that it was in confidence.

The trial court recognized that the evidence permitted no alternative but to find that a confidential relationship existed between Monolith and Kaiser, and so found in Finding of Fact No. 68 (R. 3726), but went on to conclude that such relationship was limited to radial, i.e., arcuate, short shims. We will establish beyond any doubt in the following sections of this brief that the confidential relationship between the parties was not limited to arcuate short shims because:

1. The original disclosure by Johnson of Monolith to Putnam of Kaiser was not limited to arcuate short shims, but rather was generic to short shims generally and specific to longitudinal short shims.

2. The conduct of the parties leaves no doubt that there was a confidential relationship relating to the concept of kilns lined with short-shimmed bricks regardless of whether the shims were longitudinal or arcuate.

The Johnson-Putnam Disclosure Was Not Limited To Arcuate Short Shims, But Rather Was Generic To Arcuate And Longitudinal Short Shims, And Specific To Longitudinal Short Shims

We have previously demonstrated at pages 112-116 of this brief that the Putnam memorandum (Exhibit 106/DA, Appendix, Part 10), which sets forth the substance of the disclosure by Johnson in August 1953, establishes beyond any doubt that the original Monolith disclosure was directed to a kiln lining employing bricks having short shims without regard to whether these shims would be longitudinal or arcuate and that the specific embodiment of this concept which Johnson and Putnam discussed was the use of Kaiser's conventional brick having a *longitudinal* shim which would be shortened in accordance with the Monolith disclosure. Thus, the attempt of the court to limit the confidential relationship between the parties to arcuate short shims must fail because once having found, as it did in Finding No. 68 (R. 3726), that there was a confidential relationship between the parties, it is simply impossible to conclude on the basis of the uncontradicted evidence that this relationship did not include linings employing longitudinal short shims since it cannot be denied that the original disclosure was directed to short shims generically and to longitudinal shims specifically.

The Circumstances Surrounding The Monolith Disclosure To Kaiser Establish A Confidential Relationship

Even though the court found in Finding No. 68 (R. 3726) that a confidential relationship existed between the parties, it, and we believe inconsistently, characterized certain specific disclosures including the Johnson-Putnam telephone call as not being confidential. We submit that the circumstances surrounding this telephone call establish that the disclosure made therein was in confidence and that Finding of Fact No. 36 (R. 3717) to the contrary is clearly erroneous. It is true that Kaiser was not expressly required to make a pledge of secrecy as to the Johnson call. However, at the time of the phone conversation, a relationship of cooperation was in existence between the parties which made such a pledge unnecessary.

Kaiser was, of course, vitally interested in anything which might improve the linings for which it sold its brick and certainly a change in shimming which would increase kiln production when the brick was used was of great value to Kaiser. It was natural for Monolith to disclose short-shimmed linings to Kaiser since Monolith did not manufacture brick and it was a necessity that Monolith contact a brick manufacturer and enter into a joint venture to permit field testing and ultimate commercialization of the Monolith short shimming innovation. Furthermore, Kaiser would obtain a derivative benefit in increased brick sales if short shimming were widely accepted. That a disclosure to further a particular relationship will result in a confidential relationship was recognized in *Cloud v. Standard Packaging Corp.*, (7 Cir. 1967) 376 F.2d 384, 388-89:

“Where the facts show that a disclosure is made in order to further a particular relationship, a

relationship of confidence may be implied, e.g., disclosure to a prospective purchaser to enable him to appraise the value of the secret, disclosure to a prospective lender to assure him of the prospects of the borrower's business, disclosure to agent, partner, or joint adventurer."

The testimony of Johnson, to the effect that he did not assume the phone call was confidential, was quoted in the Memorandum of Decision (p. 62, R. 3621), but is of no significance. The existence of a confidential relationship, created in part by the prior dealing of the parties, is a complex conclusion of law on which a layman's views are of questionable relevance and certainly not conclusive. Rather, it is the facts and circumstances surrounding the disclosure and the conduct of the parties subsequent to the disclosure which must be examined to determine whether a confidential relationship existed. In this regard, it is to be kept in mind that the assumptions of a lower echelon employee such as Johnson provide little or no insight into the relationship between Monolith and Kaiser, a relationship which would inevitably be based on the formal and informal understandings reached by policy-making personnel of the respective companies. Certainly, the actions taken by the policy-making personnel of Monolith and Kaiser have far more probative value than the assumptions of the relatively inconsequential Johnson. Indeed, to give the assumptions of Johnson controlling significance would be to abdicate the decision-making function of the court to a person entirely unqualified to assume it.

The actual relationship of the parties was such that both Monolith and Kaiser were interested in obtaining better performance of kiln linings and there was a large degree of cooperation between the Kaiser brick salesmen and the operating personnel of the Monolith kilns.

Out of this spirit of cooperation arose a relationship of confidence. The court noted this in its Memorandum of Decision (pp. 59-60, R. 3618-3619) and stated at page 60 (R. 3619):

“Any time that information was characterized as confidential, Kaiser kept the confidence. *Kaiser also exercised a discreet judgment, as did other refractory manufacturers, as to the difference between general information which could be made available to the industry and special information affecting the competitive advantage of a particular customer over its business rivals.*” (Emphasis added)

The above statement of the court constitutes a very important qualification on findings such as Finding No. 34 (R. 3716) to the effect that Kaiser had a policy of freely disclosing and disseminating all information between various manufacturers. Obviously, there was information which Kaiser recognized as being freely given and which Kaiser felt free to pass on. However, the trial court recognized that it would be absurd to think that Kaiser felt that all information it acquired could be freely passed on *or used by Kaiser to its own benefit* without consent.

Kaiser's technical salesmen of brick were necessarily shown many features of the Monolith cement plant so that they could be of greater assistance in supplying a suitable product. There is nothing unique in this method of operation and when it is employed, business ethics require that information learned for the purpose of allowing the parties to deal favorably in the future should not be disclosed to others. This was recognized in *Chun King Sales v. Oriental Foods*, (S.D. Cal. 1955) 136 F. Supp. 659, affirmed in part and reversed in part (9 Cir. 1957) 244 F.2d 909. The court there considered whether

a use was an experiment made in confidence or public such that it was a statutory bar as to a patented invention. In finding confidence, the court looked to cooperation between the inventor and discloser, stating at 136 F. Supp. 662:

“There is evidence in the record that the Minnesota Mining & Manufacturing Company made several attempts to construct a machine for the plaintiff for the purpose of achieving the result finally attained by this invention. They were interested in selling to the plaintiff their patented tape. Their employees were allowed on the premises of the plaintiff to see, and participated in, the experiments being carried on. Whether they were pledged to secrecy is *not* material. They knew that experiments were being carried on and the plaintiff had the right to rely on the decencies of ethical conduct which forbid a concern dealing with another to disclose to others experimental demonstrations and uses carried on in order to enable the two parties to deal in the future on more favorable terms.”

On appeal, this Court indicated grave doubts as to whether the use was an experiment, 244 F.2d 914, but said nothing to indicate that it considered the foregoing quotation to be anything other than a sound statement of the rights of the parties if the use were indeed experimental.

The overall relationship between the parties was thus one in which they relied upon each other to respect the confidences to which each exposed the other without entering into separate formal secrecy agreements on each such occasion. Thus, the subsequent conduct of the policy-making personnel of Kaiser and particularly the license negotiation activities thereof constitutes the

most reliable evidence of whether Kaiser recognized a confidential relationship.

It is well established that license negotiations are indicative of a confidential relationship even in the absence of an express agreement of confidence. Thus, in *Schreyer v. Casco Products Corp.*, (2 Cir. 1951) 190 F.2d 921, 924, the court found a confidential relationship implied from license negotiations as follows:

“Although the court found no express agreement to hold the information in confidence and not to use it if the negotiations for a license were not successful, there was a confidential relationship created between the parties by the disclosures which restricted the right of Casco to use them to the purposes for which the disclosures were made. *Hoeltke v. C. M. Kemp Mfg. Co.*, 4 Cir., 80 F.2d 912. The breach of this confidential relationship, enabling Casco to invade the plaintiff's market, was unfair competition.”

Throughout the case, Kaiser has referred to the dealings between it and Monolith with regard to short shimming as “arms-length” negotiations and the trial court so found (Finding No. 67 R. 3725-26). However, the mere fact that the negotiations might have been arms-length negotiations does not mean that a confidential relationship is precluded, *Smith v. Dravo Corp.*, (7 Cir. 1953) 203 F.2d 369, 376-77 (Appendix Part 13).

In *Heyman v. Ar. Winarick, Inc.*, (2 Cir. 1963) 325 F.2d 584, 587, the court explained further how the disclosure made at arms-length created a confidential relationship based upon standards of fair dealings. (Appendix, Part 14).

Kaiser's conduct, even if characterized as arms-length negotiating, was completely consistent with its recogni-

tion that short-shimmed linings had been disclosed in confidence.

Furthermore, Kaiser expressly recognized this confidential relationship in the letter from Davis of Kaiser to Schoonover of Monolith dated February 1, 1956 (Exhibit 969/JQ) in response to an inquiry from Schoonover as to why Kaiser drawings of the arcuate short shims it was producing for Monolith contained a notice indicating that the subject matter thereof was the property of Kaiser. Davis said:

“The intent of the first sentence is to protect ideas originating with us. We certainly make no claims that material on the drawings in question originated with us and we therefor make no claim to property rights.

“We understand and agree, as we have *in the past*, that your disclosures to us in regard to the Anderson devices have been *confidential* and our people have all been instructed accordingly.” (Emphasis added)

Anderson is, of course, the inventor of the patent in suit and the claims of that patent cover longitudinal short shims as well as the arcuate short shims which were illustrated in the drawing to which Davis referred in Exhibit 969/JQ. Furthermore, we have previously pointed out why the “Anderson devices” constitute short-shimmed kiln linings regardless of whether the shims are longitudinal or arcuate.

The acknowledgement by Davis of a confidential relationship was entirely in accord with the previous dealings of the parties and with the standard of conduct which this and other courts have often required in business dealings.

For example, this Court, in *Radiator Specialty Co. v. Micek*, (9 Cir. 1964) 327 F.2d 554, 555, stated:

“We find that the trial court’s findings as to breach of a confidential relationship are well supported. There was something worse than merely tough competition. We hold that the principles of *McKinzie v. Cline*, 197 Or. 184, 252 P.2d 564, apply. At this point, it should be pointed out that any damage for this breach will probably all be included within the damage to be ascertained for the patent infringement.”

The relevant portion of the lower court’s decision in *Micek v. Radiator Specialty Co.*, (S.D. Cal. 1961) 135 USPQ 220, 222-23, appears in the Appendix, Part 15.

Similar sentiments are expressed in *Kamin v. Kuhnu*, (Ore. S.Ct. 1962), 232 Or. 139, 374 P.2d 912, the pertinent portion of which is quoted in Part 16 of the Appendix to this brief.

MONOLITH DISCLOSED NOVEL SUBJECT MATTER TO KAISER

There is no evidence in the record which permits a conclusion that Monolith’s disclosure to Kaiser did not meet the standard of novelty required by law. Thus, we take no exception to Finding of Fact No. 31 (R. 3715) and agree with the facts stated therein. We do, however, take most vigorous exception to the successful effort by defendants to convert these facts into the conclusion expressed in Finding of Fact No. 51 (R. 3721) to the effect that the facts set forth in Finding of Fact No. 31 establish that Kaiser did not make use of Monolith’s disclosure in developing its “UNITAB” kiln liner product, Finding No. 51 having been adopted verbatim by the court.

Keeping in mind that the facts set forth in Finding of Fact 31 constitute the only "prior knowledge" of short-shimmed linings found by the court to be in Kaiser's "possession" prior to the Monolith disclosures (see also Memorandum of Decision p. 57, R. 3616), we submit that the only possible conclusion permitted by the applicable law is that Monolith's disclosures to Kaiser were novel to Kaiser. First, we point out that the record leaves no doubt that although Kaiser engineers did, as stated in Finding No. 31, consider in 1944 the Longacre and Heuer patents which disclose kiln linings employing unconventional brick and incidentally disclose that short shims may under certain circumstances be used with such unconventional brick, it is an undisputed fact that Kaiser made no attempt or effort to develop a short-shimmed lining of any type during the ten years which then passed until Kaiser was spurred into activity by the Monolith disclosures and this is the strongest possible evidence that Heuer and Longacre provided not even a suggestion, much less an effective teaching, of the concept of a lining composed of short-shimmed conventional brick which Monolith disclosed to Kaiser. Similarly, the fact that Miss Lloyd, a Kaiser patent agent who must have read hundreds of patents in her job, also looked at the Heuer and Longacre patents, can be no basis for finding that Kaiser had knowledge of the Monolith concept and there is absolutely no evidence that Miss Lloyd's "knowledge" contributed in any way to Kaiser's development of its "UNITAB" kiln lining product. In marked contrast, as we have pointed out in the previous section of this brief, it was not until the Monolith disclosures to Kaiser that Kaiser commenced any activity directed to developing its "UNITAB" product, and the rapidity with which Kaiser undertook to develop the "UNITAB" product after receiving the

Monolith disclosures can leave no doubt as to what information Kaiser used as the basis for its "UNITAB" work.

Having thus established that Kaiser was not in actual possession of the subject matter of the Monolith disclosure prior to receiving it from Monolith, we must now look to the law to determine whether the facts set forth in Finding of Fact No. 31 are such as to create constructive knowledge on the part of Kaiser such as would absolve it from liability. We will show that the applicable law precludes any conclusion that the facts of Finding No. 31 create such constructive knowledge. In order to do this, we will:

1. Make an objective examination of that which is disclosed in the Heuer and Longacre patents and point out the substantial differences between the Monolith concept and these patents, which differences were recognized by the Patent Office.

2. Explain why the applicable law requires the conclusion that the Heuer and Longacre patents cannot destroy the novelty of the Monolith disclosure to Kaiser.

Neither The Longacre Nor The Heuer Patents Contain A Disclosure Or Suggestion Of The Monolith Concept And The Patent Office So Found.

The Heuer and Longacre patents (Exhibit 14 — Notebook of Prior Art) were both filed on the same day in 1939 and proposed means for reducing the heat transfer from the lining of a kiln to the shell. Longacre proposed a brick having legs (shown as elements 30 and 31 in the patent drawings) on one end thereof such that only the legs would contact the shell of the kiln and would hold the majority of the surface of the brick away from the

shell. Heuer proposed a laminated composite brick in which the portion of the brick which came into contact with the kiln shell was formed of an insulating material. Thus, both Heuer and Longacre were concerned with unconventional brick and proposed spacing the *brick* from the shell to reduce heat transfer.

With regard to the use of short shims in the linings disclosed therein, Longacre discloses at page 3, column 1, lines 19-35 of his Patent No. 2,230,142 that the shim “need not” extend to the shell and that it is preferable from the standpoint of reducing heat losses to space the shim from the shell. Longacre then goes on to state that:

“this has the *disadvantage*, however, that cooling of the spacer plate by heating conduction is restricted.”
(Emphasis added.)

The “spacer plate” referred to is, of course, the shim. Longacre further states that for “higher temperature installations” it is *desirable* to have the shim in *contact* with the shell. Thus, in this one passage, Longacre goes to the very heart of the novelty of the Monolith disclosure. This novelty is that it would be desirable and advantageous under the conditions of operation of the burning zone in a cement kiln to sacrifice the cooling of the shim which would result from having it in contact with the shell because the overall improvement in quality of the lining which results from spacing the shim from the shell in the burning zone and gives increased production and longer lining life far outweighs the sacrifice.

Indeed, Monolith has recognized from the outset and acknowledged to the Patent Office that it is but an elementary principle of physics that spacing the shim from the shell will transfer less heat to the shell than would occur if the shims were in contact with the shell. Un-

accountably, the court (Memorandum of Decision, p. 55, R. 3614) found in this acknowledgment an admission by appellant that its short-shimmed kiln lining concept was not novel. Just the opposite, appellant's acknowledgment was designed to focus the attention of the Patent Office on that which was novel as opposed to that which was not and the court's comment in this regard would appear to provide a revealing insight into why the court reached a different decision than did the Patent Office which recognized that it was not simply spacing the shim on any brick in any environment which was novel, but rather the *desirability* of spacing the shim from the shell of a cement *kiln* lined with *conventional brick* which constituted patentable subject matter over Heuer and over Longacre.

Essentially the same analysis applies to Heuer and the following quotation from page 3, column 1, lines 33-40 thereof, demonstrates that Heuer contains no more disclosure of the Monolith concept than does Longacre:

"It ordinarily is not economical to extend the spacer plate to cover the insulating portion 28 of the brick, as the chemical reaction with the spacer plate which integrates the bricks *does not* take place with the *insulating material* ordinarily used. Therefore, in figures 1 to 5, the spacer plate 30 extends only over the longitudinal face of the non-acid refractory." (Emphasis added.)

Once again, the Patent Office recognized the crucial distinctions between the Monolith concept and the prior art represented by Heuer, i.e., when using the unconventional brick of Heuer there was no advantage in using a full length shim because the insulating portion of the brick closest to the shell would not react with the shim whereas in the Monolith concept using a conventional

brick this passive reason for spacing would not apply. Stated differently, Heuer teaches only that when using his unconventional brick there is no particular advantage to be gained from using a full length shim, *not* that there is any advantage at all to be gained from using a short shim, much less does Heuer contain a disclosure that it would be advantageous to use a short shim with a conventional brick in his lining.

Thus, it is absolutely unremarkable that the Kaiser engineers who became aware of the Heuer and Longacre patents in 1944 found nothing in them which would motivate development of a product of the nature of the "UNITAB" kiln liner employing short-shimmed conventional brick and that they did not commence their "UNITAB" work until after receipt of the Monolith disclosures about ten years later.

The remoteness of Heuer and Longacre is emphasized even further by the fact that each of them (Longacre, page 3, column 1, lines 27-30 and Heuer, page 3, column 1, lines 41-46) unequivocally state that the shim *should* be in contact with the shell at *high temperatures*. Since the burning zone of a cement kiln operates at a temperature which would have been considered "high" by Heuer or Longacre, i.e., 2700°F. to 2800°F. (Exhibit 2/V, page 250), the disclosures in Heuer and Longacre regarding high temperature installations actually teach away from the Monolith concept. This was recognized by the Patent Office Board of Appeals in its decision (Exhibit 2/V, page 344) when it said:

"Longacre on page 1, column 2, lines 17-19, refers to a cement kiln as suitable for the application of his lining. In such kilns the temperature in the burning zone is approximately 2700°F., as appellant indicates on page 7 of his brief. This is *obviously* a 'higher

temperature installation' referred to by Longacre, one in which he suggests the use of bricks insulated from the shell, and spacer plates *contacting the shell.*" (Emphasis added)

In spite of this, and in spite of the fact that the meaning of "higher temperature installation" in Longacre and Heuer must be tested as of 1939 when these patents were filed, the court below concluded that the reference in these patents to higher temperature installation meant about 3300°F. (Memorandum of Decision, page 28, R. 3587).

The evidence cited by the court in support of his conclusion is no evidence at all and the conclusion is clearly erroneous. The court's conclusion was apparently based primarily upon Exhibit 73, an article dated March 24, 1958. This article indicates that in 1958 it was found that a *magnesia* kiln as described therein could operate at a temperature as high as 3300°F. The purpose of the article was to describe a new plant, built by Kaiser at an expense of three million dollars. On the first page of the article, it is indicated:

"New rotary kiln
New settler
Converted reactor

... highlight Kaiser Chemical's \$3-million magnesia-plant revamp that boosted output 50% to meet booming demand for high-purity refractory."

The article was published in a scientific journal, *Chemical Engineering*, to describe a revamped plant including a *new* rotary kiln. The temperature achieved in the new kiln, which was a sufficient advance to describe in a *Chemical Engineering* article, is not relevant to the question of temperatures as they existed in conventional rotary kilns in the 1939 era.

The court also referred to the testimony of Richard Snyder that the Cape May installation operated at temperatures of 3050°F. while he was there (Tr. 7656). Here again, the court was not relying on evidence relevant to kiln temperatures in 1939 since Snyder did not come to Cape May until 1944 (Tr. 7589).

The court's finding as to the meaning of "higher temperature installations" in 1939 is thus unsupported by any evidence relating to temperatures employed in 1939. The only direct evidence on this point in the record is the aforementioned opinion of the three Patent Office experts who sat on the Board of Appeals. Thus, Longacre and Heuer, who teach away from short shims in higher temperature installations, i.e., rotary cement kilns of the type in issue, teach away from the Monolith disclosure and do not represent prior art knowledge which could have been relied upon by Kaiser in developing the "UNITAB" brick.

The Standard of Novelty Required For Protection Of A Disclosure In Confidence Is Less Than That For A Patentable Invention And Is Amply Met By The Monolith Disclosure

The principle that the novelty requirement in the area of trade secrets does not require patentability and, in fact, not even absolute novelty is set forth in *Futurecraft Corp. v. Clary Corp.*, (Dist.Ct.App. 1962) 205 Cal.App.2d 279, 23 Cal.Rptr. 198, wherein the court adopted the Restatement view as set forth in the quotation from that decision appearing at Appendix, Part 17.

Thus, Kaiser cannot escape liability for use of appellant's short-shimmed lining concept which was disclosed in confidence because others in the industry might have previously used the same idea, *Grepke v. General Elec-*

tric Co., (7 Cir. 1960) 280 F.2d 508, 512, (Appendix, Part 18).

Although there has been some evidence adduced at the trial indicating that there were isolated instances wherein short shimming may have been practiced in the industry, such practice was exceptional, was known only to a few people in the industry and was not available to Kaiser prior to the Monolith disclosures in 1953 and 1954. Kaiser's lack of knowledge on this point is indicated by the fact that the Memorandum of Decision did not include these isolated short shim installations as part of Kaiser's knowledge (Finding of Fact No. 31, R. 3715). Thus, just as in the *Grepke* case, Kaiser cannot rely upon isolated use by others to relieve it of the duty to compensate for the information disclosed by Monolith.

Furthermore, confidential information is protected even when it might have been developed by combining various bits of prior art information such as those referred to by the court, *A. O. Smith Corp. v. Petroleum Iron Works Co.*, (6 Cir. 1934) 73 F.2d 531, 538-539, (Appendix, Part 19).

With the Monolith disclosure in hand, it is, of course, relatively easy to search the prior art for disclosures which might have been used to develop the valuable information. Other courts have been aware of this strategy and have taken it into account in their evaluation of claims that the information was known before the confidential disclosure. In *Fairchild Engine and Airplane Corp. v. Cox*, (N.Y.S.Ct. 1944) 50 N.Y.S.2d 643, the court stated:

"It is quite manifest that after this litigation was projected the defendant commenced digging in the field of 'prior art' to ascertain what had been done

and written about bonding aluminum with ferrous metals. Concededly the field was not entirely virgin. But the plaintiffs' expenditure of time and money brought results not reached by others."

See also, *L. M. Rabinowitz & Co., Inc. v. Dasher*, (N.Y.S.Ct. 1948) 78 USPQ 163, 166, (Appendix, Part 20)

Kaiser's attempts to go back to the Heuer and Long-acre patents are mere afterthoughts just as in *Trenton Industries v. A. E. Peterson Mfg. Co.*, (S.D.Cal. 1958) 165 F.Supp. 523, 532 (Appendix, Part 21).

KAISER'S APPROPRIATION

The Presumption of Appropriation

Kaiser had access to appellant's information regarding short-shimmed kiln linings and the use of short shimming in the "UNITAB" raises an inference that the Monolith disclosure was used by Kaiser, *Teich v. General Mills, Inc.*, (Dist. Ct. App. 1959) 170 Cal.App.2d 791, 793, 339 P.2d 627; *Larson v. General Motors Corp.*, (2 Cir. 1945) 148 F.2d 319.

Kaiser failed to introduce any evidence to rebut this inference. The record is devoid of any documentation of independent conception of short-shimmed linings by Kaiser. There is no documentary evidence of independent conception of short-shimmed linings by Kaiser personnel, no laboratory notebooks evidencing short shim experimentation by Kaiser and no evidence that operating personnel at the Kaiser cement plants felt the need for shim modification to decrease heat loss or increase production. On the contrary, all of the evidence requires the conclusion that Kaiser used the Monolith disclosure and the finding of the trial court that the patent in suit was infringed confirms this.

Palmer Ford Was The Moving Party In Kaiser's Appropriation

The earliest evidence of any kind indicating Kaiser activity in the area of short shims with basic brick was that Palmer Ford, a Kaiser salesman, suggested a short-shimmed lining to a customer, John Sauer of the Riverside Cement Company (Finding of Fact No. 54, R. 3722) in July, 1954, long after the Monolith disclosures. This is the same Palmer Ford to whom Monolith had by March 1954, made extensive disclosures of short shimming and to whom Monolith reported the 100 barrel per day improvement resulting from the experimental short-shimmed lining (Exhibit 114/DM, Appendix, Part 10).

Palmer Ford appears to have played a leading role in Kaiser's short shim program. In addition to suggesting the first Kaiser sale of short-shimmed basic brick for experimental use at Riverside, Ford also obtained the order for short-shimmed brick from the Southwestern Portland Cement Company in 1955 (Finding of Fact No. 57, R. 3723). Ford also was involved in the license negotiations between Monolith and Kaiser regarding the short-shimmed lining developed by Monolith (Finding of Fact Nos. 40, R. 3718; 47, R. 3720; and 59, R. 3723). In fact, Ford's active part in the adoption of short shimming with basic brick appears to have led him to claim that he disclosed the idea of short shimming to Monolith (Tr. 9889). This testimony was shown to be erroneous when Ford had difficulty in stating the first date of such a disclosure (Tr. 9886-9887) and subsequently related that the first person he spoke to at Monolith, California concerning short shimming was Douglas Kingsbury (Tr. 9891). This occurred some time between six months and one year prior to March, 1955 (Tr. 9901; Tr. 9899), i.e., well after disclosures by Anderson and Oberg to Ford.

The Court's Finding Of Infringement

There can be no question as to whether the "UNITAB" brick embodies the Monolith disclosure in view of the court's finding that the claims of the Anderson patent in suit (Exhibit 1/PS) are infringed by this Kaiser product.

The court found that claim 3 was infringed by Kaiser (Finding of Fact No. 131, R. 3753), thus indicating that Kaiser did appropriate the disclosure of that claim, i.e., lining of kilns with short shimmed brick broadly without specific reference to either longitudinal or arcuate short shims.

The fact that the court held the patent claims invalid does not affect Kaiser's duty to compensate Monolith for the misappropriated information embodied in claim 3. None of the reasons for invalidating the patent claims would defeat recovery on the basis of the confidential disclosure. As previously indicated, the novelty requirement for trade secrets is far different from that required for patentability. Thus, even if the court below is correct in holding that the prior art invalidated the patent, an issue not before this Court, the same prior art would not render the confidential information disclosed to Kaiser unprotectible.

The foregoing discussion establishes that Kaiser appropriated Monolith's complete and concrete disclosure of short-shimmed linings in rotary cement kilns using either longitudinal or arcuate shims. However, even if only linings employing the arcuate form of the short shims were disclosed, a decision that Monolith's disclosure was misappropriated by Kaiser in the use of the longitudinal short shims in the "UNITAB" brick would still be required.

It is well established that the misappropriator need not make a virtual copy of the disclosure. Rather, the courts will hold the misappropriator liable if he uses the salient features of the disclosure. Even if the "L" shaped longitudinal shim, the unitary construction and the cardboard spacer which are features of the "UNITAB", constitute improvements on the basic disclosure of short-shimmed linings, Kaiser has nevertheless misappropriated the basic feature of short shimming the lining and must be held responsible to appellant for the value of that disclosure.

In *Graver Tank Co. v. Linde Air Prod. Co.*, (1950) 339 U.S. 605, 70 S.Ct. 854, 94 L.ed. 1097, the Supreme Court considered the extent to which an infringing device might differ from that claimed in the patent. The court indicated that in this determination, the patent law was the same as the law for piracy of an idea and stated at 339 U.S. 607:

"One who seeks to pirate an invention, like one who seeks to pirate a copyrighted book or play, may be expected to introduce minor variations to conceal and shelter the piracy. Outright and forthright duplication is a dull and very rare type of infringement. To prohibit no other would place the inventor at the mercy of verbalism and would be subordinating substance to form."

In *Booth v. Stutz Motor Car Co. of America*, (7 Cir. 1932) 56 F.2d 962, the court indicated that a confidential disclosure will also be protected even if there is not outright duplication. Furthermore, unconscious assimilation of a disclosure into a design will not relieve the discloser from the duty to account for that part of the disclosure which was used. These principles were set forth at 56 F.2d 968 (Appendix, Part 22).

That improvements on the disclosure do not relieve the appropriator of liability is indicated in *Berry v. Glidden Co.*, (S.D.N.Y. 1950) 92 F.Supp. 909, 912; and in *Mycalex Corp. v. Pemco Corp.*, (D.Md. 1946) 64 F. Supp. 420, at 425, (Appendix, Part 23).

In Finding of Fact No. 75 (R. 3727) it is indicated that the only feature common to longitudinal short shims and arcuate short shims is that there is a space between the shims and the shell. Even if this Court should conclude that the only common feature between the Monolith disclosure and the "UNITAB" brick is spacing, Kaiser remains liable for using this feature.

**THE STATUTE OF LIMITATIONS DOES NOT BAR
APPELLANT'S CAUSE OF ACTION FOR MIS-
APPROPRIATION OF CONFIDENTIAL INFOR-
MATION**

As recognized by the court below, the first five counts of appellant's Complaint set forth claims for recovery for the misappropriation of confidential information (Memorandum of Decision, p. 3 R. 3562). These counts sound primarily in tort and also assert a right of recovery based on contract.

The court found that the two-year statute of limitations California Code of Civil Procedure, Section 339(1) applied to the causes of action alleging misappropriation of confidential information (Finding of Fact No. 73, R. 3728). Section 339(1) requires that action upon a contract, obligation or liability not founded upon a written instrument be brought within two years. This section applies to tort actions and thus is applicable to an action for misappropriation of confidential information, *Italiani v. Metro-Goldwyn-Mayer Corp.*, (Dist. Ct. App., 1941) 45 Cal. App.2d 464, 95 P.2d 944.

It will be shown that the misappropriation of confidential information asserted by appellant here is a continuing tort and thus the present action is not barred and that, if anything, the period for which recovery may be had is simply limited to the two years immediately preceding filing of the Complaint. It will further be shown that the trial court erred in holding that the cause of action for the first misappropriation accrued more than two years before filing of the present suit.

**Kaiser's Misappropriation Was A Continuing Tort And
Thus The Action For Misappropriation Is Not Barred
By The Statute Of Limitations**

Misappropriation of the confidential information is a continuing tort and thus a new cause of action arises with each instance of misappropriation. As a result, the statute of limitations, California Code of Civil Procedure, Section 339(1), may operate to limit the period for which recovery may be had to the two years immediately prior to the commencement of this action, but it does not bar the action. Appellant's original Complaint (R. 2-9) clearly alleged a continuing tort in paragraph 22 (R. 6-7) of the first cause of action and the trial court recognized the continuing nature of the activities of Kaiser complained of in this case in Finding of Fact No. 21 (R. 3713) wherein it found the Kaiser UNITAB liner to have been on sale "since" early 1955.

The question of whether an action for misappropriation of confidential information is a continuing tort was squarely faced in *Underwater Storage, Inc. v. United States Rubber Co.*, (D.C. Cir. 1966) 371 F.2d 950. There the Court of Appeals for the District of Columbia, after an extensive review of existing authority, determined that misappropriation of confidential information is a

continuing tort. The court summarized its holding at 371 F.2d 955 (Appendix, Part 24). The court in *Underwater* recognized that in other analogous areas the continuing tort doctrine was applied. (See, for example, cases cited in Appendix, Part 25).

The *Underwater* result was also reached in the Second Circuit in *Titcomb v. Norton Co.*, (D. Conn. 1959) 208 F.Supp. 9, 15, affirmed (2 Cir. 1962) 307 F.2d 253:

“Plaintiff contends, however, that in the case of a continuing tort, or continuing breach of an implied contract, recovery may be had for the statutory period prior to commencement of this action. This position appears well taken.”

Appellees relied below on *Thompson v. California Brewing Co.*, (Dist. Ct. App. 1951) 191 Cal.App.2d 506, 12 Cal. Rptr. 783, but that case did not consider the question of continuing tort and was not relied upon by the trial court. *Thompson* did involve California Code of Civil Procedure Section 339(1), but it involved a contract action rather than the tort of misappropriation, the contract relating to an advertising idea. The complaint alleged that the advertising idea had been submitted by plaintiff to defendant with the understanding that it would be paid for if it were used. The idea was used without compensation to plaintiff and plaintiff filed suit more than two years after first use of the idea by the defendant. Plaintiff attempted to avoid the two year statute of limitations by contending that there had been an additional contract permitting the defendants to first test the idea, but the court found that there was no evidence to support this contention. Thus, the court found that a breach of contract had occurred beyond the period of the statute of limitations.

In *Thompson* the court pointed out that when a mere idea is disclosed, the law requires a contract before it will protect the discloser at; 12 Cal. Rptr. 786:

“Under the *Weitzenkorn* and *Desny* cases, the rule is that one to whom such an idea is offered need not pay for it unless there is a contract, express or implied in fact, to do so.”

Because *Thompson* was a contract case, the question of the effect of the statute of limitations on a continuing tort was not considered and the case is not authority for applying the statute to the continuing tort complained of in the present case.

The Cause Of Action Accrued Within The Statutory Period

This action was filed June 6, 1958 and since the cause of action did not accrue prior to June 6, 1956, the action for misappropriation of the Monolith disclosure is not barred. Appellant's cause of action could accrue only when it became aware of Kaiser's adverse use of the disclosure. The earliest Monolith could have become aware of Kaiser's adverse use was October, 1956 when Kaiser submitted to it a preview of advertisements about to be published offering the Kaiser UNITAB brick to the public. The trial court stated as to the effect on Monolith of seeing the October, 1956 advertisement (Memo of Decision, p. 110, R. 3669):

“It was then clear to plaintiff that Kaiser would not enter into a licensing agreement broader than the radial shim.”

Use by Kaiser of short shims prior to the October, 1956 advertisement was believed by Monolith not to be adverse and was considered entirely consistent with

Kaiser's evaluation of the Monolith disclosure. It is conceded by Kaiser that many trials are required to evaluate refractory materials as per the letter from Davis of Kaiser to Rentsch, dated July 8, 1955 (Ex. 950/GV).

As long as Monolith reasonably believed that Kaiser was evaluating the kiln linings using short shims to determine its interest in the Monolith disclosure, it follows that no cause of action arose. Only when Monolith knew or should have known that Kaiser planned to sell short shims without license from Monolith did a cause of action arise, *Pickford Corp. v. De-Luxe Laboratories*, (S.D. Cal. 1958) 161 F.Supp. 367, *Shearer v. Davis* (Dist. Ct. App. 1945) 67 Cal.App.2d 878, 155 P.2d 708.

CONCLUSION

The very size of the present brief is indicative of the unusual nature of the present case in which we ask this Court to review many rulings by the court below on vastly different points of law. We will not here attempt to repeat even in summary form all of the many instances in which we believe error to have been committed.

We do, however, want to make one observation by way of conclusion which is that our review of the records has brought us to the belief that defendants' success in convincing the trial court that the 1955 experimental uses by Riverside and Southwestern and the sales of short-shimmed brick for those uses were, first, statutory bars, which were, second, fraudulently concealed by appellant from the Patent Office was such as to cast appellant in the entirely inappropriate and erroneous role of not only an unreasonable and bad faith litigant but a perpetrator of fraud. Had the trial court correctly perceived the law with regard to these matters, we have no doubt that the trial would have proceeded in an entirely different manner than that reflected in the record before this Court.

A review of the entire record can only lead to one conclusion: that except for the disclosure by Monolith to Kaiser, the important advance in the art which eventually brought about the Unitab brick to the benefit of Kaiser and to the detriment of Monolith would not have occurred even though the district court found by hindsight that elements existed in the art which had been overlooked for ten years and might have been brought into play, but were not independent of the Monolith disclosure.

We regret that it has been necessary for us to impose on this Court the heavy burden of reviewing the many points raised in this brief and of making the necessarily attendant review of large portions of the record. However, we believe this extensive effort to be mandatory particularly in view of the erroneous finding of grievous misconduct, the enormous amount of the attorney fee award and the importance of the property misappropriated by Kaiser. Thus, for the reasons stated, we ask this Court to reverse the rulings of the district court on each of these issues and to reverse the grant below of costs to defendants.

Respectfully submitted,

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CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

By LEWIS E. LYON

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